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WHOLESALE AND
RETAIL TRADE

WHOLESALE AND RETAIL TRADE

WHAT SERVICES THE WAREHOUSEMAN
AND THE SHOPKEEPER RENDER AND
HOW THEIR BUSINESSES ARE CONDUCTED
AND ORGANIZED

BY
WILLIAM CAMPBELL.

~~CHARTERED SECRETARY~~

AUTHOR OF
"MODERN BUSINESS AND ITS METHODS"

EDITED AND WITH A FOREWORD BY
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FOREWORD

THERE is now general agreement among educationists that the classes provided in evening schools and institutes for young persons engaged in the distributive trade on both its wholesale and its retail sides were, until recently, extremely unsatisfactory. Their syllabuses were narrow in content, and, moreover, emphasized the accidental and transient aspects of business transactions while neglecting entirely the consideration of those fundamental principles which are involved in every business of buying and selling. For this many reasons can be assigned, the discussion of which need not be entered upon here. It is sufficient to observe that there has been a very marked improvement lately in this country in the training in Commerce offered in the institutions referred to, and that broader sympathies and a wider outlook now characterize the syllabuses of the principal examining bodies in this subject.

It is a simple matter to alter syllabuses and to issue orders for a new orientation on the part of those in charge of these classes. It is quite another matter to get the desired response. The serious difficulties in the way of the latter are two. If, on the one hand, the teacher is himself engaged in business during the day, he tends, when he meets his class in the evening, unduly to stress details which may appear important to him ; and, unless he holds a position of managerial rank, his pupils fail to get from him that broad view of trade, with details in their proper perspective, which alone has educational value. If, on the other hand, a professional teacher is entrusted with the task, his lack of knowledge of the details of business may cause him to fail to interest pupils who seek to learn something that will be, as they express it themselves, useful to them in their everyday life. When such teachers acquire knowledge of business details, they often err as seriously as the former type. It is to help both groups of teachers and their pupils that this textbook has been prepared.

The author, Mr. Campbell, is well equipped for his task. Filling a responsible position in a very important firm engaged in this

business, and with wide experience as a successful teacher of the type of pupil in view, he avoids the usual mistakes of each group of teachers. His practical acquaintance with business enables him to illustrate his points with concrete examples. At the same time, as teacher, he endeavours to be suggestive and to inculcate general principles.

The book ought to prove exceedingly useful to teachers and to students reading for the examinations of such bodies as the Royal Society of Arts.

J. G. SMITH.

PREFACE

IN dealing with the subject of "Commerce," as now required to be taught in commercial schools, need has been felt and expressed for textbooks that would cover, more fully than existing textbooks do, some parts of the syllabus prescribed. The series to which this book belongs is intended to meet that need; and here the attempt is made to help students in those parts of the subject concerned with wholesale and retail trades. In so far as they relate to these trades the requirements of the examiners are usually set out in some such terms as follow—

1. Function of the wholesaler. Organization of wholesale warehouses. Large-scale retailing. Organization of department stores, and of multiple shops.

2. Purchase of goods from home producer or supplier. Importation of produce and of manufactured goods. Terms of sale—quantity, quality, delivery, carriage, and price. Terms and methods of payment.

3. The capital employed and the capital owned by the business. Gross profits and net profits, their relation to turnover and to capital. Variation of net profit with turnover and with capital.

4. Constitution of the proprietorship in the sole-trader, partnership, company, and co-operative society forms.

It is for advanced or Stage III students more especially that this work has been prepared.

Much of the matter here presented is suggestive only. All of it either conforms to methods or is based on needs that have come within the author's own experience. But the treatment is not exhaustive, nor are the methods explained unalterable. Examiners like the work of candidates who show evidence of ability to think out applications and explanations for themselves. In business, also, the proficient are they who, having learned principles and acquired ideas, can adapt them to new or changing conditions when these appear.

The framers of the present syllabus in "Commerce" have for their aim the inducing of students to take an outlook on business affairs wider than the details of office procedure alone can give. Within the limits set him the author has tried to imbue his

presentation with the spirit of that broader view. Yet, he has endeavoured to handle the practical procedure of business and business management in an efficient and instructive way.

Acknowledgment is due to the Royal Society of Arts for permission to include, amongst other questions given in the book, some of those set at the Society's examinations.

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WHOLESALE AND RETAIL TRADE

CHAPTER I

THE WEB OF COMMERCE

LET us take an article of common use. The outer coat that keeps one warm in wintry winds is a serviceable article of a kind in general demand. For a short time we can use it here as an illustration for a different purpose. Let us try, with some little interest, to trace the history of such a garment before it reaches the wearer's back. By doing so we shall learn, as well as in any other way, what it is, in the fullest sense, that the word "commerce" signifies.

ON AN AUSTRALIAN SHEEP FARM. Much the greater part of an ordinary winter coat consists of woollen cloth. And most of us know that the wool, or nearly all the wool, we use in the making of cloth comes at first from the fleece that grows on the body of the sheep. As we should have difficulty in tracing the origin of wool back before its growth upon the sheep, and as our Antipodean colonies are the chief source of this country's wool supply, we may assume our story to begin with a ruminant flock quietly grazing on an Australian sheep farm. By ship's route round the earth that would be a distance of some 12,000 miles from the ultimate owner of the coat. There, many years ago, emigrants from Britain settled on what are now the sheep lands of Australia, and, then and since, they introduced the individual specimens of sheep-kind from which their present extensive flocks have sprung. Sheep, as we know them, are reared for man's use. Having been domesticated from immemorial times, their thriving depends on some amount of tending at the shepherd's hands. By selection in the raising of his stocks the sheep breeder aims at preserving and improving the quality of both wool and mutton, the two most desirable commodities that sheep raisers produce. At the proper seasons, too, the growers relieve the sheep of their woolly burdens, and they trim and grade the clips.

In that way they complete the first stage in a continuity of processes whereby man takes the natural garment of the sheep, and *makes* it into one that, by long habit and second nature, he wears himself as if it were by origin his own.

AT THE MELBOURNE WOOL MARKET. The second stage begins with the pressing and baling of the shorn-off wool, and with the numbering and marking of the bales, which are afterwards transported by road, and rail or river, to one of the Commonwealth ports. We shall imagine that the bale for the winter coat we have in view goes to a wool warehouse in the capital of Victoria, and is consigned by the grower to the order of a wool broker who will sell it for him there. At the warehouse in Melbourne it will be listed and stacked away with numerous companions to await a buyer when the auction sales take place. Before that, however, all the bales on offer at the port will be arranged by the brokers in lots, according to their qualities and stations, and a catalogue of them will be printed for the convenience of bidders at the sale. Each year a series of wool auctions is held in the principal Australian and New Zealand ports,¹ and they are attended by buyers from the woollen-manufacturing districts of Great Britain, the rest of Europe, and the United States. After our bale has been sold the buyer pays for it from funds furnished to him by arrangement with one of the Melbourne banks. In exchange for the money paid out, that bank takes from the wool buyer a draft or bill on the buyer's bank in Britain, and in due time the London office of the Melbourne bank collects, on Melbourne's account, the amount of the bill from the British bank on which it has been drawn.

TRANSFORMATION IN THE MILLS. When payment has been made the bale is released from storage, and is soon afloat on a steamship bound for England. Let us suppose it comes to Hull, a port conveniently situated for dispatch to Yorkshire woollen mills. Arrived and unloaded at Hull the bale will travel by train or by motor wagon, to some point within the West Riding woollen and worsted area, where Bradford and Leeds, Halifax and Huddersfield, are the leading towns.

But now the bale we have been following will lose its identity, and its contents will mingle with those of other bales, as all pass through a number of ingenious and intricate machines preparatory

¹ Sales are also held periodically at the Wool Exchange in London.

to spinning operations. The raw bulk of wool from the pressed bales will be teased out and cleaned. Its slender filaments will be coaxed into alignment in a loose rope of woolly fibres which, doubled and stretched, and doubled and drawn and twisted again and again, will eventually be spun into yarn of regular fineness, capable of resisting tensile strain.

On leaving the spinning sheds the yarn intended for the warp, or lengthwise threads of the cloth, will be mechanically wound evenly and quickly on to a beam that will fit into the loom; and the yarn for the weft or cross threads will be wound on spools that go into the shuttle. Then, on the clattering power-loom, the shuttle, incessantly crossing and recrossing amongst the threads of the warp, will produce slowly but steadily, inch after inch and yard after yard, a length of closely woven fabric, uniform in texture and in strength. When dyed to a suitable colouring, with its surface dressed to an agreeable finish, the cloth from the loom will be ready for a further, if less spectacular, transformation to be effected in other hands.

THE TAILOR TAKES HIS TURN. Carrying a sample of the now finished coating, the manufacturer's travelling salesman may sell the piece to a clothing factory, or to the larger class of establishment in the retail tailoring trade. That will bring transport and banking services into use once more. Alternatively, and indirectly through a wholesale merchant of woollen piece-goods, the cloth may find its way, in shorter lengths, into smaller shopkeepers' stocks. It is then for the local tailor, snipping and stitching at the cloth, to take his turn in the progress we are sketching. By aid of tape and square, of chalk and shears, he cuts up the good woven output of the mill, rather relentlessly, into a motley bunch of odd-shaped fragments. Next, with needle and thread and sewing machine, he proceeds to have these fragments patched together into a shell of cloth to fit the human frame. Lined and buttoned with materials culled from other sources, and pressed under the tailor's hot "goose," the shell emerges spick-and-span from his manipulations—the poor sheep's fleece in its final form—an adornment, perhaps, for the strutting dandy, a neat and comfortable protection for the ordinary man.

VARIETY OF COMMERCIAL ACTIVITIES. Viewed with inquiring eyes, the new topcoat, now hanging on the hall stand of its owner, represents an immense variety of services that have been rendered

to him by diverse classes of his fellow men scattered over half the Earth. We have seen contributions of these services given by sheepmaster and shepherd, by shearer and baler of the wool. Transport and warehousing workers, dock and railway men, broker and auctioneer, banker, shipowner, and crew have all taken their parts, some here, some there, in this Pageant of the Fleece. The labours of carder, doubler, winder, spinner, weaver, dyer, finisher, and the help of tailor's cutter and machinist, merchant, traveller, and shopman, have all gone to the making of the coat. The price that the wearer has given includes a fraction of payment for every one of these services, which have contributed *directly* to the end that one man should get an extra article of clothing for which he felt a need.

But the cost of the coat also includes many more fractions for labours *indirectly* contributory to the end. The shearer needed shears, the motor man a wagon, the wool market a storage warehouse, the bankers bank offices, the shipowner a ship with engines to propel it and tackle all complete. The ship needs a dock to berth in, with cranes to land and sheds to store the cargo, and a dock needs a railway system, with locomotives, trucks and stations. The woollen manufacturer's services could not have been rendered without mill buildings, the mill operatives' labours could not have been given effectively without their skilfully devised machines. Without his selling warehouse the piece-goods merchant could not have played his part in this drama of work and life, nor the retailer his, without a shop and appropriate fittings; the seamstress hers, without a sewing machine. Any one of these, or of a multitude of other accessories, has a history no less varied and no less far-reaching than the history of the winter coat. Commerce is an all embracing fabric whose threads are men's activities, every one of which is in direct contact with and relation to many other activities, and through them in indirect connection with every remaining occupation in which civilized man or woman is engaged.

THE SUPPLY OF HUMAN WANTS. Man has many wants, and he seeks for many things to satisfy them. Several of the things he seeks are sheer necessities, such as food and drink, some clothes and shelter, without which life could not endure. Other things, like flaunted diamonds or gambling institutions, are luxuries or vices, without which we could manage just as well, or better. Many

others, again, are neither utter necessities nor luxuries out-and-out. Were we deprived of artificial heat and light, of design and colour in our homes and public places, of reading and music, of teachers and healers, of law and religion, much of our vaunted civilization would be extinguished, and our state would approach near, indeed, to the condition of the beast. Wild animals contrive to find, each one by itself, all that they need to keep life going, and so did early savage men. But human beings have now long acquired the gregarious habit, have learned to live together and to help each other with their needs. They fall naturally into the particular occupations that offer opportunity for work, or into those in which they find themselves most capable. The cobbler cobbles for the village, and gets in return those things, produced by other workers, of which he is most in want.

It is the high development of this co-operation and exchange in the supply of human wants that has given us our commercial system of to-day. Throughout history some trafficking has always been carried on in the wealth of different districts, and in the products of distant lands. But in recent times, with the perfecting of machinery and of transport, the tendency to specialize in production has grown enormously, and so have the means of trading and the methods of exchange. As a result, commerce nowadays is the vast web of trafficking activities we have tried to describe, a widespread interplay of energies, by which, more or less consciously, we endeavour to keep pace with the growing complexity of our demands.

THE INTEREST EACH OF US HAS. And now, dear reader, let me ask, What is the place of you and of me in this web of busy effort? You and I have each our wants to be supplied, and in so far as they are supplied the system works *for us*. Each of us, as a unit in the population of our land, is one of the consumers for whom the system provides—gathers first and then distributes—the commodities of the world. A modicum of food comes to most with such daily regularity that some of us forget to question how its coming is arranged, or to feel grateful that it comes to us at all. Still, we have recurring wants for many additional things that cost us effort to procure. When it is not a garment to wear, it is some other article of which we stand in need, or to possess which we have contracted a desire. I suggest, as an exercise, that you take any simple article of use—

a pair of shoes or two silk stockings, a table knife or a cup of tea, the bread you eat or the chair you sit on—and that you try to follow out its story. If you select a London bus or a railway train you will have a modern contrivance with a multiplicity of parts. To trace the supply of its many components, and to tell their history in any fullness, would be too big a task.

Now, what we get we pay for. The means of payment we procure by taking our place in this network of activities, and by giving our labour for a share of the good things the network of activities provides. Though the share comes to us in money, and not in kind, that makes it none the less a share of the wealth we have helped to create. For money is merely a device that commerce has evolved in order to facilitate the dividing-out of the supply, so that each of us may be able to get the kinds of things that we prefer to have. You and I, then, both have a double interest in this play of commerce—an interest in what we must give, and an interest in what we can take. Besides, in some degree our place in the commercial world corresponds to our knowledge of how it works, and that is why you and I have both come to be engaged, the one in writing, and the other in reading, what this book contains.

PLACE OF WHOLESALE AND OF RETAIL TRADE. In writing of business occupations we make use of the group of terms, "industry, trade, and commerce." "Industry" we apply to manufacturing and constructive occupations, and to extractive and cultural occupations like mining and wool-growing. "Trade" we use to indicate business in buying and in selling goods, whilst "commerce" takes a wider signification than "trade." It includes not only trade or actual dealings in goods, whether the goods have been produced in this country for home use, or are being imported or exported. It includes also the activities of transport and communication, of banking and the use of money, of the supply of insurance facilities against loss from various causes. Yet, these distinctions cannot always be maintained, and we have taken a little liberty up to now in the use of the word "commerce" ourselves. In ordinary speech the working plumber is said to have a *trade* in his hands, though he does not sell any goods. And every manufacturer must himself be a trader in part, else how could he sell the goods he makes, or buy the materials he uses? Besides, the school syllabus for the subject "Commerce" is framed to cover not only the activities

of the merchant or trader, and the auxiliary functions of banking, transport, and insurance, but also the occupations of manufacturers and producers of every kind.

It is, however, with the trader only, and the buying and selling of the goods he handles, that this book has now to deal, including therewith payment for his purchases and sales. A trader, pure and simple, does not produce or make the things he deals in, nor does he cause the articles he has bought to be changed in any form before he offers them for sale. The trader's place in commerce is between manufacturer or producer on the one hand, and the consumer on the other. When the consumer buys for personal use he gets his supplies from dealers who sell in the small quantities he wants. Such dealers are called "retail" traders. Retailers, for their part, procure the stocks they need, or some of them, from "wholesale" traders, who are supposed to sell only in bulk, buying themselves in still larger quantities from manufacturers or growers, or at produce sales. The raw material that a manufacturer uses he buys, as a rule, from the producer, just as the wholesale dealer does; but the wholesale warehouse, or even the retail shop, may be called to serve the manufacturer at times, when he requires goods of other kinds in quantities too small to be obtained from first sources of supply. Trade, then, and trading methods, wholesale and retail, are the subjects we must now pursue.

QUESTIONS

1. Explain what you conceive to be the purpose of all commercial activity. Show how different commercial pursuits are interdependent, and how all help towards the common end.

2. What do you understand by "Commerce" as distinct from "Industry"? Enumerate the several branches into which commerce is usually divided. Explain how some of its services are secondary and auxiliary to its main operations.

3. What is meant by the term "trader" used in its stricter sense? What position does the retail trader occupy in the commercial system? Where does the wholesale trader come in?

4. Describe briefly your own relation to the commercial system—what contribution you make to the achievement of its ends, and what benefits it yields you in return.

5. Give briefly some indications of the immense variety of activities that go to make up commerce as a whole. Give some reasons that occur to you why the activities of commerce have become so varied.

6. Take an article of food or clothing that you frequently buy. Make a list of as many kinds of service as you can, the money value of which is included in the price you pay for the article.

CHAPTER II

FUNCTION OF THE WHOLESALER

NATURE offers her gifts to man on the condition that he expends the labour necessary to take them from her grasp. Man generally is willing, and able within limits, to give the labour that Nature demands. From the sources, therefore, where natural wealth is offered, streams of supply flow out to meet the wants of the community. As the supplies pass from place to place they usually undergo some change of form or state, so that the raw products of the earth become more fit for human use. The streams, as we have seen, follow devious courses, until they are at last swallowed up in the satisfying of our individual needs. Our wants, however, never cease, and the perpetual demands we make keep new supplies continually flowing.

THE WHOLESALER'S PLACE ON THE STREAM. In this flow of commodities, from their source of supply to their end in consumption, the wholesale trader's place and function lie between—

1. The maker of goods or the grower of produce, and
2. The retail trader, from whom the goods pass on to the user or consumer.

We can picture the wholesale warehouse situated on the course of supply as a kind of reservoir, giving temporary storage to portions of the supply on their way from makers' works to retail dealers' shops. But this picture of a stream or flow of goods does not give a full representation of what trade actually is. Taking another view, we can see that the wholesale trader serves as a *link* in the mechanism of commerce, that one of the purposes of his existence is to *connect* the manufacturer on the one hand with the retailer on the other. By virtue of his connecting function he passes on to the manufacturer indications, more or less precise, of what kinds of goods the retailers and the public are going to demand. He also passes back to the public, through the agency of the retailers, experimental samples of goods that convey the manufacturers' notions of what the public should take, and his intimations of what he is able to supply.

There must of necessity be something of this linking purpose

in the wholesale trader's functions. The shopkeeper, being in direct touch with the ultimate users of manufactured goods, learns at first hand what are the users' tastes and how they are affected by limited powers to spend. Notifications of these tastes and limits reach the wholesaler, and through him the manufacturer, in one very effective way. Even if they are not positively expressed, they are implied most plainly in the absence of orders for goods that do not suit, and in the repetition of orders for goods that do.

But unwritten intimations travel in the reverse direction as well. From time to time changes come in the nature and in the volume of supply, of particular kinds of goods. It may be that demand falls off, because a narrowing of supply prevents the manufacturer from being able any longer to make the old goods at the old price. He then finds himself put on trial, and he has to discover how he can produce an acceptable substitute at a price the public will pay. It may be, again, that new kinds of supply are now procurable, and it is for him to learn how to present the new goods in forms that will take with the public, and create a new demand. When butter and home-grown beef continued to rise in price, producers and wholesale suppliers came along with the offer of the cheaper, if less appetizing, substitutes of margarine and chilled beef from abroad. Quite recently, inventors have discovered how they can manufacture artificial silken thread at lower cost than real silk, and they have learned how to weave or knit it into a great variety of pleasing textures. As a result, demand for articles of the new tissue has grown rapidly, and, in promoting and meeting the demand, factory owner and worker, warehouseman and shopkeeper, have all taken an active part.

WHOLESALE A HELP TO MANUFACTURER. 1. The Economy of Mass Production. Manufacturers cannot produce small quantities of goods cheaply. The handling of an order for a small quantity of goods may involve the planning of how constituent materials are to be combined, or how they are to pass through several processes of manufacture, and this planning will be just as great for a small order as for a large one. Machines may have to be prepared to take the materials in the different processes, and this preparation, also, may take as much time for a small lot of goods as it would take for a big lot. Besides, a small machine, turning out a small quantity slowly, may need as close and as long attention as a large and

powerful machine working many times as fast. These are some of the reasons why "mass production" is the most economical—why the domestic coal shovel can be offered retail for a sixpence, and why a machine-made American watch can be sold for shillings, when a hand-made English Lever would cost the buyer pounds. In mass production processes are standardized, the planning part of the operation is done once for all, and the rest is mostly repetition work carried out automatically by machines, each one constructed specially for a process all its own. The same patterns, moulds, and tools serve over and over again, until they are worn out, and then they are replaced by replicas of the old ones that do not need to be designed anew.

2. Making up Big Orders. The wholesale merchant helps the manufacturer by placing a large order for each kind of goods to be made. In supplying numerous retail dealers over a wide area, he has a big outlet for his wares. Individual requirements of the public are collected by each of his many retail customers, and are heaped into huge masses of demand in the wholesale merchant's hands. Each mass, passed on by him in bulk to the maker of that kind of goods, enables the maker to get on with the work of production in the most economical way. In the absence of wholesale dealers, manufacturers would have to seek orders from the retail, and would procure them with much greater trouble in a multitude of small quantities, and with far greater variation in the types of articles required.

3. Relieving the Manufacturer from Holding Stocks. Goods in general demand have to be produced before they are wanted for use. The supply must be ready when the demand occurs, for neither the public nor the retail sellers could wait until needed supplies were made. This means that, somewhere on the course of supply, large stocks must be held available. The shopkeeper, of course, holds stocks in his shop to cover a short period of his customers' demands; but, as his own short-period stocks run out, he needs to have sources of supply that he can turn to and draw upon without the least delay. It is the wholesale warehouseman who takes upon himself the responsibility for holding this second-line reserve of stock, and for seeing that it is continually replenished as it melts away in answer to the demands that the shopkeepers make upon it.

Thus does the wholesale warehouseman relieve the manufacturer

from holding constantly stocks of finished goods. By so doing he enables the manufacturer to concentrate on his own particular share of the work of supply. He helps the manufacturer to carry on with much less capital than would be necessary, if the manufacturer had to lay out permanently large sums in stocks, as well as in costly machinery, holding the stocks continuously against possible demands from the retailers. Unless he also engages in the wholesale trade, a manufacturer works mainly on orders actually received, and not on the making of goods for stock. When manufacturers do hold quantities of finished goods, the goods have usually been produced, during slack spells in their factories, in fulfilment of wholesalers' orders on hand for delivery at future dates. That procedure is a convenience to the manufacturers themselves, and stocks so produced are not held by them continuously throughout the year.

4. Permitting the Manufacturer to Specialize. The general policy of the manufacturer, then, is to collect his orders from the wholesale and not from the retail trade ; and to get them so in bigger bulk, and in less variety of type, than he would, if they came to him from the retail direct. By the wholesale man, the small and varied requirements of the retail shops are sorted out in advance into big orders, each for a bulk of similar goods. Such an arrangement permits the manufacturer to specialize to some extent in the kind of goods he can produce the best. It permits the wholesaler, on his part, to select for each order the manufacturer who has executed that kind of order most satisfactorily in the past. Selecting and specializing are, of course, controlled in some degree by the price that the public prefers to pay, and by that at which each manufacturer is able to supply. This system of organization has grown up in the past with the growth of the nation's needs, and its development has been governed, chiefly and in the long run, by experience of what have been, and what have not been, the most efficient methods for trader and manufacturer mutually to pursue.

WHOLESALE A HELP TO RETAILER. 1. By Holding a Varied Stock. To the retail shopkeeper it is a convenience to be able to find, in the warehouse of the wholesaler, many kinds of goods and many varieties of each kind, drawn from many makers' works. Because the demands of the public are widely varied, the retailer needs a very varied supply, if he is to serve more than a narrow section only of these demands. The supplies he can choose from will become more

varied still when he visits, as he usually does, several wholesale warehouses in his trade, and from time to time receives their travellers' calls. To spread out his sources of supply, however, over many wholesale houses is not an advisable course for the small retailer to adopt. It takes up too much of a keen and busy shopkeeper's valuable time to inspect many traveller's samples, to make buying calls at many warehouses, and to keep record of many small orders given out. It takes still more of his limited time to receive parcels, to pass invoices, and to check off and pay accounts correspondingly numerous. Unless some clear advantage is to be gained otherwise, the small man finds it less wasteful of labour to buy in larger lots from but a few merchants. On the other hand, the confining of his attentions to one or two suppliers deprives him of the benefit of seeing and judging what others have to offer. So the bigger man with a larger turnover, who can order in greater quantity, willingly opens new accounts whenever goods are shown to him with distinctive or attractive features, or at a tempting price.

2. By Offering a Ready Supply. A retailer with only small capital at his command cannot successfully load his stocks with large quantities, each of one kind. The capital put into such stocks would lie idle too long waiting for each kind to sell out. With limited funds to work on the retailer would be hindered in laying in goods of other kinds for which he experienced demand. The policy of the successful retailer is to turn his stocks over quickly, to hold at one time so much only of one kind of goods as will serve to meet his customers' wants for a short period, and to renew without delay any class of goods that he finds running out. In that way he will use to best advantage the capital he can command.

A stock of goods worth £1,500, if turned over on the average every two months, or six times in the year, at a net or clear profit of 5 per cent, would yield a net return of £450 a year, or 30 per cent of that portion of a shopkeeper's capital that the stock absorbed ; whilst the same value in stock, if turned over only twice a year, would yield the much smaller return of £150 for the year, or only 10 per cent of the £1,500 employed. The wholesale warehouse, with a ready supply of many kinds of goods held at the retailer's instant disposal, gives the retailer the means of renewing his stocks as often and as quickly as his trade allows. It enables him to stock his shop fully with much less outlay of capital than would be necessary

had he not so ready a source of supply to fall back upon. Large quantities of the same goods are usually procurable at considerably lower prices than small quantities ; but it is for the retailer himself to decide how far he can venture to take advantage of the decreased price of a big purchase, and how far he can afford to lose possible profits on the sale of other goods that he will then be unable to buy in.

3. By Allowing a Period of Credit. There is a third way in which the wholesale warehouseman gives help to his retail customer, and that is by allowing him credit for a time on the goods he buys. The length of credit that the retailer may take depends on, (1) the margin of available capital he has to work with, and (2) the latitude in payment that his wholesaler will agree to. Obviously, a shopkeeper, who sells for cash and buys on three or four months' credit terms, is given the opportunity of converting his purchases, or nearly all of them, into cash before he is called upon to pay. That means simply this—that his wholesale suppliers help him to the extent of finding him, year in and year out, the capital he needs to carry three months' stock.

But assistance given to him in the shape of lengthy credit adds to the retailer's costs. For the trader that loses regularly a discount of $2\frac{1}{2}$ per cent on his accounts, by taking three months' extra credit, pays for the accommodation at the rate of 10 per cent a year. Such a rate is, of course, more than a prosperous wholesale house would be called upon to pay for borrowed capital with which to finance the giving of credit to its customers. And the retail man who is wide awake takes the benefit of the best cash discount he can get ; or, if limited resources prevent his taking full benefit now, he looks hopefully forward to, and works eagerly for, the time when his settlements will all be made " for best."

WHEN MANUFACTURERS SERVE THE RETAIL. Notwithstanding all we have been saying, it is frequently true that the wholesale trader drops out of the scheme of supply entirely. For many years now a tendency has been apparent on the part of manufacturers to link themselves up directly to the retail. What happens, when they do so, is not that the function of wholesale dealer ceases to be exercised, but that the manufacturer takes the wholesaler's function upon himself, and dispenses with the service of the independent wholesale merchant for the marketing of his products. The manufacturer becomes himself the wholesaler of his own goods. He

holds finished stocks of his goods for the retailer to draw upon, sells them in the quantities that suit the retail trade, and collects payment in smaller amounts from numerous retail customers instead of getting it in big sums from fewer wholesale houses. We may take it that the present-day facility of raising and using money in the joint-stock form of capital, and the benefit of limited liability in the case of a venture failing, are not unconnected with this widening of the area of the manufacturer's enterprise.

It is usually for "branded" goods that direct marketing is adopted, that is, for goods that bear a distinctive name marked upon them when they reach the public, as "Sunlight" soap or "Wolsey" underwear. It is also usual, as in these two instances, for the manufacturer to advertise such wares extensively to the public. By the publicity he gives to his goods the manufacturer creates a demand for them at the shops—a demand that the retailer cannot ignore, except under penalty of letting would-be purchasers go empty away to supply their wants elsewhere. The manufacturer, then, by creating a demand through advertising, compels the shopkeeper to buy and stock his goods. But his advertising also helps the shopkeeper to sell them. Particularly is that true in regard to luxury articles like "Kodaks" or "Morris-Oxford" cars, which the public would not so readily take up were the desire to possess not insidiously and insistently created and maintained.

Makers of motor-cars and pianos, of furniture and electric fittings, of boots and chocolate and jam all sell direct to the retail, some of them advertising and some not. In the cotton and woollen textile industries, marketing procedure is usually less direct, but not always so. Makers of sewing machines or typewriters, manufacturers of drugs or sweets, dyers and cleaners, and others may be multi-shop proprietors, handling their goods right through until they reach the final users.

IS THE MIDDLEMAN A NECESSITY? The reader may now quite justifiably ask, "Is the wholesale trader needed? In the commercial system is there any necessity for any buyer and seller of goods to intervene between the producer and the user?" If the picture we have drawn of the organization of commerce is a true one, it has shown that the small trader's orders are not big enough to be dealt with economically by every manufacturer or grower. It follows that, until producers of all kinds take upon themselves

the responsibilities of a wholesale merchant, some intermediary or middleman will be needed by the shopkeeper. And, until the small manufacturer is squeezed entirely out of industry, a wholesale buyer will be a necessity to him, so that he will have an outlet for his manufactures in convenient bulk, and will be able to convert them into cash without inconvenient delay. Neither of these suppositional contingencies is likely to happen yet.

To the big manufacturer or the big storekeeper, both of whom have large capital resources, there is not the same necessity for the wholesale middleman. The big manufacturing company, if it needed to do so, could find capital to use in holding finished stocks and in financing retail book debts; and the big storekeeping or multi-shop concern has a turnover huge enough to permit the ordering-up of supplies in quantities of the size that the manufacturer desires.

The position in regard to grown produce such as wheat or rice, tea or fruit, raw cotton or raw wool, is somewhat different. Growers of these commodities cannot themselves singly get into direct touch with enough retailers to take all their produce. Where the produce is perishable, like fruit and vegetables and fish, the producers could not store it to await buyers, even if they were willing to do so, without taking up the cold storage business in addition to their own. For growers of produce at home direct marketing of all their produce would be difficult to establish and as difficult to maintain, unless they could form efficiently managed selling associations of their own to supplant the independent middleman. For foreign growers the difficulties would be considerably greater, and that is why the middleman is a necessity in these trades. He is himself a growth, evolved to fit the conditions of his trade. That is also why he tends to disappear where the new conditions of new times make his services no longer always necessary.

To the onlooker, however, who is an interested consumer, there seem to be, even in the urban conditions of to-day, too many handlings of some of the things that we require. The profit that every unneeded middleman takes makes an unnecessary addition to the cost that the consumer has to pay. The public is often asking, and may continue to ask more persistently, where all the difference goes, between the price that the trawler gets for the fish he brings to port and the price that the retailer asks when a suburban consumer wants herrings or halibut. A very considerable margin exists

between what the farmer receives for his milk or his potatoes and what the householder gives when these necessary commodities reach his door. The question is being put rather pointedly, if a less costly means of distribution could not be devised that would benefit, not only the user of coal, but the pit owner and miner as well.

WHOLESALE WAREHOUSES OF DIFFERENT KINDS. The warehouse of the wholesale merchant grew out of the need for a central source of supply for the retail traders of a district. The warehouse would, therefore, come into being in the chief town of the locality. It is clear that a wholesale trader who set up his warehouse in a village or in an out-of-the-way country town would be handicapped, in attracting and keeping customers, by the remoteness of his situation, and that to be successful he must locate himself in a central city. Wholesalers' warehouses are found, therefore, in the Metropolis, and in the large provincial cities that are most conveniently placed for supplying the surrounding population. Such provincial cities are Manchester and Leeds, Birmingham and Bristol, Glasgow and Aberdeen. But with the facilities we have for transport, and in the natural desire of the successful merchant to become more successful still, the big wholesale houses push out their salesmen into districts far beyond their own, and some of the houses keep active accounts with retailers all the country over.

Wholesale warehouses may be roughly classified according to the kinds of goods they sell. Some supply the retail trade with (1) groceries and provisions, or what the community needs to eat; others deal in (2) drapery and clothing, or what people want to wear; whilst others, again, sell (3) hardware and ironmongery, or implements and utensils for domestic use. These are the three main classes, but we also find wholesale dealers in, for example, clocks, watches and jewellery, in toys, in fancy articles to carry on the person or to adorn the home.

In London the typical street for wholesale drapery establishments is Wood Street, E.C.2. A warehouse may specialize in one or two kinds of goods, particularly if it is the warehouse of a manufacturer. Thus, we may have a wholesale clothier's establishment for ready-made clothes for men, or a mantle and fur warehouse or ladies' coats, suits, and furs. We may find one warehouse dealing exclusively in articles of millinery, another in hosiery and woven underwear, a third in linens and household drapery or in soft furnishing

goods. Many are "general houses" that supply the shopkeeper with all the goods we have named, and with various other kinds as well.

Of the wholesale trade in groceries and provisions, Eastcheap, E.C.3, is as representative a street as any. In the vicinity are the Mincing Lane Sales Rooms, where tea, coffee, dried fruits, and much other imported produce are daily sold by auction, and where wholesalers get their supplies. Mark Lane, also close by, has long been the rendezvous of the corn-factoring trade. For vegetables, fruit, and flowers, the chief wholesale market of London is Covent Garden, for dead meat the City Corporation's extensive range of buildings at Smithfield, and for fish the famous Billingsgate.

QUESTIONS

1. Explain in some detail the function performed by wholesale traders in the home trade of this country.

2. If all wholesale warehouses in a given trade were abolished, in what ways precisely would their abolition affect the manufacturers who supply that trade?

3. Describe several effects that the abolition of wholesale warehouses would have on retailers in the drapery trade, or in any other trade you understand.

4. The wholesale trader is said to render certain services to manufacturers on the one hand, and to retailers on the other. Can you conceive of any of his services resulting in benefits passed on to the buying public? If so, how may the benefits pass, and in what form?

5. If a manufacturer decided for the future to supply his products direct to the retail only, what differences would the decision make to the manufacturer's methods? Would it affect (a) the retail trader, and (b) the buying public; and, if so, how?

6. What reasons do you think would weigh with a manufacturer to induce him to trade direct with the retail instead of through the wholesale? In what circumstances, and with what different goods, is that course most likely to be taken?

7. What is meant by a "middleman"? Give an illustration of the services he renders. State generally what tendencies have brought him into existence as a distinct unit in our system of supply.

8. Set down concisely, but clearly, your views about the usefulness, or the uselessness, of the wholesale middleman in the supply of particular commodities as they are dealt with in the conditions of to-day.

9. Where are wholesale warehouses usually situated? Give whatever reasons occur to you why wholesale trade should be conducted from such situations, and not from places differently situated.

10. Take the trade you know best. Show what different sources of supply are open to (a) the retail shopkeeper, and (b) the wholesale warehouseman, in that trade.

CHAPTER III

FUNCTION OF THE RETAILER

WE have already noticed that the retail shopkeeper is the final link in the chain of supply—a chain that begins with the grower or producer of raw commodities and ends with the individual members of the buying public, who are the users or consumers of the finished goods. The wholesale dealer places his warehouse at a point in the course of supply where demand in wholesale quantities can be conveniently concentrated. On the contrary, the retailer's function being the distribution of commodities directly to the individuals of the community, his shop is found set up wherever individuals live in just sufficient numbers to make worth while the keeping of a shop for their supply. Every village and every hamlet, therefore, has its shop and shopkeeper, such as they are, for the things in most constant and immediate demand. Its less urgent or less frequent wants are satisfied by occasional or special visits to the bigger shops of the nearest market town.

WHAT IS IN SOME OF THE NAMES. The word "retail" has come to us through French, from the prefix *re* and the verb *tailler*, meaning "to cut." Evidently the retail trade was viewed as one that cut off smaller portions from larger lumps of goods. In French, *retaille* is a paring or a clipping, a small piece that has been cut off. With the sense shifted from the quantity cut and placed upon the act of cutting, the French word *tailleur*, or English "tailor," is now applied to the man who cuts up cloth to make it into clothes. In contrast to "retail," we use the term "wholesale" for the handling of whole, instead of broken, bulk. But that appears to have been originally, though it is not now, the meaning of the word "grocer"—a person that sold by the gross or in large quantities, from the French *gros*, big. In that language to sell *en gros* means still to sell wholesale. The draper was, of course, a seller of cloth, having taken his name from the French word *drap*, a cloth. In "mercier" we have a variant of "merchant," which came to be applied to a dealer in silks and other textiles; but that name is now seldom used. It

may be of interest to add that the milliner was at one time a vendor of ribbons and silk stuffs from Milan.

HOW RETAILERS MEET CONSUMERS' NEEDS. 1. By Providing Food-stuffs Fresh in Small Portions. Some commodities are very perishable, as fresh fruit or fish, and an individual or a family will not buy more of these than it needs for present use. Other commodities, like butter or bacon, lose their freshness less quickly. But, when they are exposed, they do not keep good a very long time, and for that reason the consumer does not buy a big supply at once. Some commodities, again, such as potatoes, or rice, or tea, will keep better still, but here another fact of individual demand must be taken into account. Many persons have little more than one or two weeks' money to buy with at one time, and that precludes their laying in potatoes by the bag, tea by the chest, or foodstuffs of any kind in quantity to last. It is to conditions such as these that the retailer of provisions, the greengrocer, and the baker have to adapt their businesses. All the eatable commodities that these tradesmen sell are bought in by the housewife once at least every week, and some of them every day. For such goods, in small quantities, there is a constant demand that the shopkeepers have to meet, day by day and week by week, with supplies that are new and fresh. And, to ensure supplies being fresh and good, the retailers renew their shop stocks almost as frequently as the housekeeper renews her home supply.

2. By Selling Singly Articles of Personal Wear. For clothes and personal belongings, for furniture and domestic requisites generally, the demand is not so constantly revived. Many of these goods are used and used again until they wear out one by one, and then they are renewed just as each worn-out article has to be replaced. A retailer of goods such as these cannot tell beforehand, as the grocer usually can, when Mrs. Jones and Mrs. Brown will be coming for new supplies, nor can he tell what articles they will want to buy, when they come. The different conditions that govern demand for such goods require the retailer to sell in single articles at considerable intervals, and so to hold his stocks for longer periods than the seller of foodstuffs does.

Again, for articles to wear the demand is largely a seasonal one, changing with the changing weather of our variable clime. Change of season, too, usually brings a change of fashion, which renders

old stocks more or less obsolete and difficult to sell, particularly in women's wear. An ordinary person will buy loaf after loaf of bread, pound after pound of beef, and pint after pint of milk. But, only once in a while, as a rule, will the same person buy a frock or a summer suit, a hat or a pair of shoes, and the next of each article, when purchased, is usually a different kind. The retailer of personal goods, then, not only holds his stocks longer than the seller of apples and cabbages, of eggs, or cheese, or jam. He also must hold them in greater variety, selling once in a while to one person one article of one kind. Besides, he must watch that, from season to season, his stocks are replenished with goods that are up-to-date.

3. By Offering Goods that the Locality Wants. We are accustomed to speak of the lower, middle, and upper classes—terms which imply that society consists of layers of prosperity. The demands of these classes differ, and they differ, chiefly, because of the different “means” the classes possess wherewith to satisfy their wants. The hobnailed boots that serve the homely labouring man would not in the least please the stylish office youth. That hat or that coat, which the smart girl typist carries to look so well, would not be at all acceptable wear for a wealthy Belgravian maiden. One district of Suburbia may believe itself élite, and may affect a preference for what it thinks are the “correct” things people should have or do. Other localities, with less high-flown notions of smartness or gentility, may be better pleased with good and serviceable articles for the money they have to spend.

All classes will, however, strive to obtain the kinds of goods that they desire, and the retailers big and little, that they patronize, must seek out the kinds that will please. A shopkeeper can lay himself out to serve a particular class, to specialize, perhaps, for a “select clientèle”; but, whether he does so or not, every retailer will find it pay to learn his customers' tastes. A country shopkeeper may have to stock a number of things that the man in the city would never be able to sell, whilst, for many other goods that city customers buy, the country shop may have very little call. No retail trader can hope to prosper if he does not offer in his shop the kinds of goods that the people of his locality demand.

DIVISION AND DEVELOPMENT IN TRADE. 1. How Divisions Originated. From ancient times occupations have been divided into many kinds, and that arrangement has been perpetuated in the retail trading

of to-day. In country places, because of the smaller volume of demand, the tendency to specialize has not gone so far as in the towns. The country draper often sells boots, and hats, and caps, whilst his neighbour the grocer sells potatoes, tobacco, and sweets. In the towns these articles would be bought at different shops. This division in shopkeeping has arisen out of the fact that the shopkeeper in many trades used to *make* the articles he sold. Shoemaker, cabinet-maker, and watchmaker, by their names, tell us that. They, with the tailor, the baker, the chandler, the tinsmith, and the saddler were craftsmen who made their goods themselves, and sold them from the shops where they were made. It looks as if the "shop" had been originally a workshop, and that the name came to signify a sale-shop as handicraft decayed, and the selling part of the craftsman's business was separated from the making. In these days the candlemaker has been superseded by gas and electric light, the tinsmith nearly so by enamel and aluminium ware. Many of the tailor's and baker's goods are now made in factories also, and are merely retailed in the shops, whilst the same is true of all but a very small proportion of the shoes we wear, the movable goods with which we furnish our homes, and the watches and clocks that we use to measure the passing day.

2. Why Development Continues. In the development of trading the tendency to divide has continued, and new distinctions in businesses have come, and still come, to be made. Walking down the street now where goods are sold, we pass not only the grocer, draper, tailor, baker, and so on, but the electrician, chemist, tobacconist, optician, restaurant, dairy, picture shop, and many more. The tailor has sent out a new branch in the ready-made clothes shop. The milliner, robemaker, outfitter, are offshoots of the draper. Some of the new trades supply wants that have grown in recent times. Booksellers, newsvendors, and stationers could have done little trade in the days when common people knew neither how to read nor how to write. Opticians have spread with the increase in the use of spectacles, and chemists have multiplied with the growth in the demand for medical and toilet preparations. Pianos were not very saleable goods when few people could afford to buy or to learn to play them. Shops for gramophones and wireless sets, for motor-cars and cycles, for cameras and tennis outfits had to wait, either for new knowledge to be explored and inventions to materialize.

or for times to come in which many people would have the means to acquire, and the leisure to enjoy, possessions such as these.

Partly the tendency towards division in trade is due, as it was in craftsmanship, to a seeking for efficiency. The trader, as well as the artisan, would learn his job more thoroughly, and accomplish it in a more masterly manner, if he confined his efforts to one kind of goods. Superior special knowledge would give him an advantage in finding and selecting the best or most saleable goods of his kind, and he would draw custom away from other traders who were less skilled in his class of wares, and who could not keep up with him in quality and price. Then, with but limited capital to use, the shopkeeper who stocked only such things as shirts and collars, gloves and ties, would have a bigger stock of these goods to show, and greater variety for his customers to choose from, than would the general draper using similar capital, who combined these goods with others of many kinds. When men wanted collars and ties and suchlike, they would prefer to go to the shop where the biggest assortment offered them the best chances of being pleased.

But this theory of specialization must not be pushed too far. The prosperous tradesman keeps adding to his wealth, and seeks new outlets for his growing capital. One way to use the increase of his capital in making still more money is to spread out beyond his locality and open shops in other districts. But another way is to add new kinds of goods to the kinds he started business with—to extend his shop and add new departments to those he already runs. Success in continuing expansion, however, requires that the same good quality and the same variety as before, the same excellence of service and the same attractiveness generally, be put into every new department that a trader ventures to take up.

RETAIL PRICES AND PROFITS. Amongst other things, the retail draper sells fancy tablecloths. He sells them in ones and twos, and each of the purchasers may take up considerable time in looking at goods before deciding which to choose. The retailer himself buys the cloths from his wholesale supplier in packets of half-a-dozen cloths, and he probably takes several packets at a time for assorted colours or designs. He is an experienced buyer, knows the quality of goods as soon as he sees them, and decides quickly which to have and which to leave. His purchase includes much else besides these tablecloths, and, for the quantity of goods

bought, he occupies comparatively little of the warehouse salesman's time in serving him. The retail shopkeeper will take as long to serve a customer with one article as the wholesale merchant will take to sell a dozen or more articles, and that is why the share of the retailer is a much larger part of the final price of the tablecloth than the share of the wholesaler is.

Both traders usually calculate their gross profits as percentages of their selling prices. Were the retailer to take the same percentage as the wholesaler, he would get a larger profit, because his selling price is higher than the warehouse selling price. As a rule, however, he takes a larger percentage, and, in addition, he gains, and his supplier loses, the discount allowed to the retailer for payment within a given time. So it may work out that, where the wholesale dealer has no more than sixpence for his gross profit on one tablecloth, the shopkeeper has eighteenpence. The retailer's bigger rate of profit is made necessary by the heavier expenses he has to meet out of his profits. His customers take up more of his own or his assistants' time to serve them. Rents of retail shops are high, because a good shop has to be situated in a main street, where there are many passers-by, and where competition for position keeps the rents of premises up. In order to attract and to please, the retailer's shop must be well fitted and lighted, and costly window display must be continuously maintained, perhaps other expensive forms of advertising, also. It is true, of course, that the wholesale warehouseman has his expenses to meet, including the rather heavy cost of travelling salesmen and their samples. But, taken all through, the retail trader's expenses are on a higher scale. His customers in these days like so many little conveniences thrown in. They want a neat little box or bag or wrapper in which to carry home the small purchase, or they want almost immediate delivery at their house doors, by motor-van, of goods that customers of bygone days would have taken home without wrappings in their shopping baskets.

MANUFACTURERS AND THE RETAIL. 1. Why Manufacturers Serve the Retail. Whether they are manufacturers or traders, or are engaged in some auxiliary service of commerce, business men are usually keen to extend their operations. That desire is probably the primary motive with a manufacturer, when he decides to sell his products to the retail direct. His immediate incentive to that course arises

out of the primary one, and is the wish to be able better to control the marketing of the goods he makes. By eliminating the wholesale trader from the course of supply, the manufacturer can get his goods to the consumer through fewer hands. He has one intermediary the less to cajole or manoeuvre into dealing in his wares, and his influence in creating and maintaining the demand for his products is more effective and direct. Further, the growth of the big retail stores, and the size of the orders they can place for supplies, are active temptations to the manufacturer of to-day to seek the big business they can give.

2. Pushing Goods by Advertisement. For pushing the sale of his products the manufacturer has three courses open to him. He can take the first course open by bringing his products to, and keeping them under, the notice of the wholesale trade, showing samples through his agents in the wholesalers' towns. In doing that he has to trust to the wholesalers for the taking up of his goods and for the passing of them on to the retailers and the public. Choosing the second course instead, he can send his own travellers to the retail and so get into immediate contact with the shopkeepers from whom the public buys. In either of these cases he may advertise the goods forcibly in the trade press, with the view of influencing wholesaler and retailer alike to handle them. But the papers of the trade do not circulate to the public. Their readers, too, know all the ins-and-outs of the trade, and are themselves accustomed to advertise what they have to sell. By print and picture alone, they are not so easily won over to the point of buying as the general public is.

The third course open to the manufacturer is to appeal to the public itself—to bring his goods straight to the notice of people who will be the users of them, if the goods are to sell at all. He makes that appeal in the daily, weekly, and monthly publications that the public reads. His announcements are framed by writers more or less expert in presenting points in such form and guise that they attract attention first, impress the reader next, and leave him at last a potential buyer of the article advertised. Meanwhile, if they can, the manufacturer's travellers induce the retail trader to stock the goods for their worth, or they persuade him not to miss the chance of benefiting by the demand that the manufacturer's publicity is creating. So it happens that the potential buyer, on passing the retailer's window, sees the advertised goods there on

view. Entering the shop for something else that he needs, his attention is again drawn to the offered articles by attractive picture show-cards. In the end he, or she, succumbs to suggestions so persistent, and turns into an actual purchaser of the goods.

3. Backing Advertisement by Quality. The producer may supplement his press publicity by poster advertising, by catalogues circulated through the wholesale or the retail or direct, or by free samples of the goods sent out by post. He may try to stimulate demand by offering gifts that will be sent by him in return for wrappers or coupons taken from the packets in which his goods are sold. Whatever methods he adopts he must see that the articles he is booming are of such serviceableness that the public, once induced to use them will be wishful to continue with their use. Heavy expenditure on appeals to buy would be all loss, unless the goods offered were of such quality and usefulness that they would afterwards be asked for on their merits. They must be goods that will afterwards "sell themselves." Poor articles will never command continual sale, no matter how much is spent in praising them, except by making new dupes with every new appeal, and so exhausting in time the possible market for them.

Goods that manufacturers advertise intensively are usually their own brands and specialties. The manufacturers see, as a rule, that the articles are so good as to answer well to all the advertisements claim for them, and to be able to stand the expense necessary to keep them in the public eye. Quite commonly the goods are made up in neat little packets or cartons, which please the user not only by their daintiness, but by their containing just the right quantity for single small purchases. Even articles like cheese or raisins, which at one time were always cut or weighed from the bulk, are now supplied nicely made up in small parcels. Securely packed in that way some at least of the goods keep fresher, and the buyer is very often willing to pay the extra in price so as to have them in that handy form. It being to every manufacturer's interest to maintain the quality of his brand, the public learns to expect an even standard of quality in them. Consumers, therefore, soon acquire the habit of buying these goods because they can take the quality on trust, preferring them to unbranded goods about the quality of which they cannot be sure. The standardizing of commodities encourages trade.

Frequently the manufacturer fixes the price at which the retailer has to sell his goods, the price being named in the advertisements. Hand cameras, motor-cars, many food preparations, some articles of personal wear, and "proprietary" articles generally, are sold in that way. The practice prevents retailers here and there exacting exorbitant profits, and, on the other hand, it prevents one retailer from unfairly undercutting another in competing for local trade. It ensures, also, that an article, made known far and wide by the publicity given to it, can be obtained at the same price, wherever throughout the land a would-be purchaser finds it stocked.

SERVING BOTH RETAIL AND WHOLESALE. Manufacturers who serve the retail commonly spend the equivalent of the wholesaler's profit in advertisements, and they incur the wholesaler's expenses in stocking and showing the goods. Though that may bring some benefit in quality to the retailers and the public, it can bring them little benefit in price. Many manufacturers, therefore, are content to deal with the wholesale only. If the prices that can be obtained for their goods are high enough to bear the cost of extensive advertisement, the manufacturers may keep up an appeal to the public whilst still marketing through the wholesale.

Some articles, of which we may take electric lamps and fittings as examples, are supplied by the manufacturer to both the wholesale and the retail, but at different prices. It would be manifestly unfair to charge the same price to the wholesale warehouse for bulk orders and to the retail shop for small ones. The difficulty in most trades, however, is that the wholesaler refuses to handle goods that are also offered to the retail direct. When he finds that a manufacturer is supplying the retail as well as himself, he usually informs the manufacturer that orders for these goods will in future go elsewhere. Except when certain goods are a manufacturer's exclusive make, the wholesaler is not restricted to one source for his supplies, and he is in a position to exercise his right of choosing from whom he will take them.

CAN PRODUCER BE RETAILER ALSO? Could the manufacturer or producer eliminate the shopkeeper as well as the wholesaler dealer, he could then become his own retailer, and he would be in direct touch with the public, which is in the end the consumer of his goods. A few manufacturers do cut out the independent retailer. They make, for example, boots or drugs in their factories, and sell these

products in retail shops of their own, scattered over the country in the larger towns. Another example of direct sale by producer to consumer is that of the colliery company which sells its household qualities of coal from its own depots over an area that its collieries can conveniently supply. And a third example is that of typewriters, made in the United States, and sold here through the shops and offices of a subsidiary British company, which is controlled by the parent company in America.

There seem, however, to be two good reasons why this direct producer-to-consumer method of sale has not spread very far. The first reason is that the efficient manufacturer specializes within narrow limits, producing a big bulk of only a few kinds of goods. A textile factory may make blankets or carpets, lace curtains or linen cloths, but it does not make any two of these four kinds of goods. So a food factory may cure bacon, or bake biscuits, or condense milk, but it will engage in only one of these occupations. A hardware manufactory may make wringing machines or galvanized-iron hollow-ware, but it is not likely to make both. One factory's output, therefore, is not usually varied enough in kind, nor in design and quality of its kind, to induce a local demand that would be big enough for a shop to pay by selling the products of that factory alone. Because of that limitation in kind of output even the multi-shop boot or drug concern does not confine itself to selling its own goods. Opportunities to increase turnover by selling other goods it does not make are too great to be passed over. Besides, retailers who describe themselves as manufacturers, and wholesalers who also do so, are not all actual makers of the goods. To some of them the description of "manufacturer" is applicable only in the indirect or limited sense of their giving out orders for goods to be produced, by independent makers, to the exclusive designs and specifications of the givers of the orders.

The second good reason why the producer-to-consumer mode of marketing does not grow is one of limitation in ability. The manufacturing company that owns a bunch of multiple retail shops, and that restricts its shops for supply to the output of the company's own works, cannot possibly attract to its manufacturing service all the ability and ingenuity of its trade. Restriction to its own works' output must prevent the company from benefiting by any manufacturing organization which is more perfect than its own, and able

to produce more cheaply. It must prevent the company from benefiting, also, by many new and, perhaps, legally protected ideas that other makers have picked up and embodied in their wares.

QUESTIONS

1. Explain in what respects the buying of the individual consumer differs from the buying of dealers in articles of food and clothing.

2. Describe as clearly as you can what services the retail trader renders, and what place he occupies in the distribution of commodities.

3. Compare, by reference to specific articles, the conditions in which the retail trade is carried on in perishable goods, and in goods for personal wear or home equipment.

4. Set down points that occur to you which a retail trader must keep in mind in dealing with his customers, if he is to be successful in his business.

5. Give your ideas about how the divisions of retail trade originated, and why new kinds of trades continue to be set up.

6. Explain why, in the fixing of selling prices in the retail trade, it is usual to provide for a gross profit larger than that of the wholesale trade in the same goods.

7. Why, in your opinion, do manufacturers sometimes cease to supply their goods to wholesale warehouses, and begin to sell them instead to retail shops direct?

8. What methods do manufacturers adopt to encourage the public to buy their goods? For the manufacturers' efforts in encouragement to be successful, with what conditions must their goods comply, and why must the goods do so?

9. Discuss the advantages and disadvantages of "branded" goods in retail trade. Why do wholesalers often sell goods under their own private brands when it is evident that they are not manufacturers?

10. There is a growing tendency for manufacturers to control the retailing of their products. What different methods may they adopt with that end in view?

11. To what extent do you consider that a manufacturer is justified in fixing the prices at which his products are to be sold by the retail? Discuss this policy from the point of view of the retailer and of the buying public.

12. What points occur to you as difficulties that a manufacturer would encounter in attempting to supply the wholesale warehouse and the retail shop direct, in the same trade?

13. What limits would you place to the extension of the manufacturer's activities into the retail trade?

14. Discuss the policy of "direct trading" by the manufacturer to the consumer, giving illustrations from particular industries in support of your argument.

15. When the owner of a single shop finds that he has exhausted the demand of his locality for the goods he sells, what steps can he take to increase his trade and his income?

CHAPTER IV

ORGANIZATION OF WHOLESALE TRADE

THE term "organization" denotes the arrangement of the parts of a whole when the whole has a function to perform and the parts have each some share to take in the performance of the function. The whole may be a single business or it may be the entire commercial system of a country. It may be, for further example, an army, the legal institutions of a people, the gas supply of a village, the body of the individual, or the British nation. In whichever example we select we shall find a combination of constituent parts, a purpose or function for the whole to attain or perform, and an assignment to each part of some special piece or kind of work to do. But such words as "assignment," "system," and "arrangement" imply a head to arrange the parts, to assign them their special duties to perform, and to keep them working in unison for an end held constantly in view. So organization includes not only the parts or departments with separate duties to carry on, but a head or guiding part whose function is to plan, control, and supervise.

HOW A BUSINESS ORGANIZATION GROWS. In the smallest business, run by the owner without help, there is no need for organization in this sense of sectional workers guided by a head. The proprietor combines in himself all the separate kinds of work and the guiding function, too. What he needs is to plan out his varied duties into a complete scheme, and to execute by method each different kind of work his scheme includes. All the operations of the business being carried out by one mind, there is not the occasion for diversity of method and purpose, nor the necessity for a combining control, which is required where many minds are to be kept at work together for the attainment of a common goal. A wholesale warehouse, however, could scarcely be started in quite so small a way as that.

As a business grows from a small beginning first one kind of duty and then another will be assigned by the proprietor to others whose help he will have to call in. He will employ assistants for clerking, packing, portering, or travelling, and in the retail for window

dressings. In time these may develop into the counting house, receiving and dispatch departments, sales manager's and display departments. Some assistants will be set to sell only, or to sell and keep in order certain portions of the stock of goods. The proprietor may continue to buy all goods himself ; but, as the business expands and divides up into different selling departments for different kinds of goods, he will find it needful to employ a buyer for each department. He will probably delegate to each buyer the management of the department for which he buys, subject to the proprietor's advice and general instructions.

When the business grows bigger and bigger, one or more of the department heads may become so indispensable as to be taken into partnership. Then each of the partners will exercise a supervising control over a section comprising several departments which he understands the best, and the partners will from time to time discuss together the administration of the business as a whole. Particularly when continued or rapid expansion necessitates the use of more and still more capital, the partnership may be converted to the joint-stock-company form of proprietorship. Then the divisional managers will be controlled by a Board of Directors, and the Board will be responsible to the general body of shareholders. Directors will be elected to the Board at the annual meetings of the members of the company.

DEPARTMENTS AND THEIR HEADS. A wholesale trader, such as a timber or paper merchant, may deal in one commodity only, and may have no need for different selling departments in his business. At the other extreme a general drapery warehouse may have its goods spread over some forty departments, every one of which handles articles different in kind from those of the other thirty-nine. Each one of such departments is usually placed under the charge of a " buyer " with special knowledge of the goods his department has to sell, and the buyer is usually the manager of the department as well. His staff works directly under his orders, and he is held responsible for all his assistants carrying out their duties satisfactorily.

To a great extent it would be left to the buyer to decide what goods to purchase so long as the purchases proved saleable, and so long as he did not infringe upon another department's preserves by stocking articles that the other department stocked. In buying

he would keep steadily in view, as regards quantity and quality and style, the usual demands made on the business for his department's goods. At the same time he would not lose sight of the chances of creating demand for goods not hitherto stocked. Each buyer would be expected to get on his sales a rate of gross profit fixed according to experience in the past, and he would have to buy at such costs that his goods would be readily disposable at selling prices which would provide for that rate of profit being realized.

It helps towards efficiency in a large business if the buying and handling of each class of goods is in the care of an expert who understands his own goods thoroughly. Thrown in as a side line with goods of some other kind, it is not likely that a class of articles would be purchased as advantageously, or dealt in to such profit, as when they were the chief or exclusive interest of a separate buyer. It also helps towards efficiency in the business as a whole to divide its goods into classes each in a department by itself, so that the result of each department's trading can be ascertained. That shows which classes of goods contribute, and which fail to contribute, their shares of profit to the general result. The department that lags in its contribution can then have special attention bestowed upon it with the view of bringing it into line.

GENERAL CONTROL AND CO-ORDINATION. 1. Departments Should Pull Together. It is a duty of the head or heads in control of all the business to plan for the general welfare of the business, to modify old policies when advisable or to initiate new ones, to see that their intentions are passed on to and understood by the departments of the business, and that the departments act up to the policies promulgated. It is a duty also of the controlling heads to ensure that all departments shall pull together, and not against each other—to prevent jealousies between departments from growing up and operating to the detriment of the business. That applies, also, to non-selling departments, like the counting house or the dispatch room, as well as to departments that sell. A department head now and again is so keen for himself, and so narrow in his outlook, that he gives more weight of consideration to some petty advantage for his own department, than to the efficiency and prosperity of the business as a whole. He forgets that the business is a whole, and that injury to one part of the organism is likely to react on all the other parts in time. For reasons such as these a controlling

influence is always needed to encourage or restrain, and to co-ordinate, sectional and departmental efforts.

2. Remuneration of Department Heads. Subject to these considerations each buyer or head of a selling department should be encouraged to run his department with as much zeal as he would display in conducting a business of his own. His own interest and the interest of the proprietors should be made to coincide as much as possible, so that the better he does for himself the better he does for them. His remuneration, therefore, is usually made proportionate to his success, and to consist largely of a percentage on his sales for each year. The remuneration might be taken as a percentage of his profits but for the facts (1) that the rate of gross profit to be earned cannot safely be left to the buyer's sole discretion, and (2) that the general expenses of the business are difficult to apportion, and to keep apportioned, to the different selling departments with satisfactory fairness to all. Net profits are more likely to be made the basis of remuneration of the general manager or managing director than of department heads. Then he will watch that profits are not all spent in trying to increase turnover. When commission is paid to department heads on the basis of sales, it should be seen that each department maintains a sufficient rate of gross profit, and that an increase in turnover is not obtained by offering goods at prices too low to bear a due share of the general trade expenses.

3. Turnover, Stocks, and Wages. The extent of its sales or its "turn-over," is the first thing to be watched in a department's figures. If its sales are found to be falling inquiries are at once begun about the cause, and remedies for the decrease are attempted. Should they continue to decline the head of the department is likely to experience an uneasy time at the hands of his superiors, and if he fails to bring the department round he may expect to be superseded in his charge.

The stocks that a department holds, their size and their condition, are perhaps the things that claim the next greatest share of a superior's attention. They should be kept as low as is consistent with adequate provision for the wants of customers, and they should be "turned over," or sold out and replaced, as often as is practicable. Each department's stock absorbs a lump of the business capital. Every time the stock is turned over this portion of capital is expected to earn a profit, so that the oftener it is turned over in a

year the greater should be the amount and the rate of profit that the capital earns. Hence, as a rule, each buyer is restricted to a stock of a size that shall not exceed some fixed ratio to his sales ; for, if he were not, the capital he was using would not be earning a high enough return. The pay roll of his staff is a matter that affects the profits (or losses) that the department head is making, and is one that will also be subject to periodical scrutiny from above.

4. Department Buyers' Commitments. A matter in which a department buyer's activities are commonly controlled to a greater or less extent is that of his buying commitments. Buyers seem to find it sometimes much easier to buy than to refrain, and, if left to themselves in this matter, some of them would run up liabilities for goods on order far in excess of their department's requirements. As previously explained, a very large part of a wholesaler's orders is for goods to be made to his instructions, and to be delivered at dates more or less remote. It is very necessary that these orders for future deliveries of goods be closely watched by the buyer himself, to prevent a surplus of goods coming in much in excess of a season's demands. For, the goods having been ordered, delivery will have to taken some time, unless the manufacturer can be persuaded to cancel the order or some part of it before having put it into work. And, when delivery must be taken, payment must be made. Mere watching of stocks on hand is not enough, but must be combined with a watching of the orders that are given out for supplies to come.

It may be that a rule is laid down for all orders over a stated value to be countersigned by a principal of the business when they are placed, or it may be that periodically a report of each department's commitments for goods on order has to be submitted for the principal's scrutiny. In any case careful record of all such orders must be kept, and the position in regard to them must be reviewed from time to time, so as to ascertain what goods have come in since last review, what are still to come, and what new commitments the buyer has entered upon.

THE WAREHOUSE AND ITS CUSTOMERS. 1. Credit and Accounts. In wholesale trade it is the usual practice to allow customers credit accounts. As an average purchase in the wholesale warehouse is bigger than in the retail shop, and as it is frequently spread over several of the warehouse departments, much longer time is taken

to get the departmental sale-slips together and to make out the bill for all. A customer that had to pay in the warehouse at the time of purchase would need to wait a while for his invoice to be made, or he would have to call back again to settle up. That is one reason why ready-money transactions are not the rule in wholesale trade, even with customers who would be willing to pay at once for better discount.

Another reason is that the wholesaler's regular customer buys a number of parcels every month, and that time is saved to both buyer and seller if a month's transactions are settled by one payment, instead of each purchase by itself. Invoices from the wholesale are made out and posted to the buyer later on the day of sale, but accounts are not usually rendered for payment until the close of each month. Still, payment is often taken in from seven to ten days after the invoice date, and a little better discount allowed than for monthly account, when customers prefer to have the extra discount that such prompt payment secures. Those who take longer credit than the month get a smaller discount than the monthly rate, or no discount at all, according to whether payment is put off for a shorter or a longer time.

Credit is given, for a third reason, because the wholesale trader knows his customers. He has learned from his experience of their accounts how they usually pay, and his experience has taught him to trust them, or most of them. But, if a customer is a new one the wholesaler knows nothing of, he asks for information to justify his granting credit, the commonest form of such information being obtained by reference to other wholesale houses with whom the new customer has been accustomed to deal. When the answers to his inquiries prove satisfactory, the wholesaler agrees to give the usual credit terms. When the answers do not satisfy, he asks the new customer please to pay cash before the goods are dispatched.

If the wholesale trader has faith in a customer's position, he will usually allow extended credit within reasonable limits, should the customer desire that long credit be allowed him. Should an old and well-known customer have fallen on bad times and his account have got hopelessly behind, wholesalers may even be willing to forgive a large part of his debts with the view of putting him on his feet again. When they agree to such a course, however, the wholesale creditors usually act together, and they see to it that

a distinct undertaking is given by the debtor about settlement of the remaining portions of what he owes. The wholesalers realize that a continuance of orders from an old and respected source, if they can be obtained in satisfactory conditions, will soon yield them profits greater in amount than the debt they have forgone, and they understand that forcing payment of the old debts in full would probably close the business down, and deprive them of any further trade therefrom. Such a course would, however, not be agreed to were there a reasonable probability of payment being made in full, as business men could not thrive by cancelling customer's debts. Nevertheless, it is better for them to lose something now with the prospect of gain to come, than to force their present rights to a doubtful issue and, by so doing, cut off entirely a source of probable profit for the future.

2. Travellers Showing Samples. A customary practice of the wholesale warehouse is to send out travelling salesmen to call at regular intervals on shopkeepers already on the warehouse books, and to make occasional calls on other shopkeepers whose business is desired. The travellers carry samples of present warehouse stocks, and bring to customers' notice any special lines on offer at the time. In these days a traveller's quickest and most suitable means of conveyance is a covered motor-car or brougham. He can in that way carry his samples with greater ease and in better condition, and he is independent of railway trains, particularly on branch lines whose intermittent services would cause him to waste much time.

Each traveller is allocated to a definite "ground" to be covered by him, and coming regularly into touch with the same customers he can generally manage to establish sufficiently friendly relations to predispose the customer to look at the traveller's wares. Besides, the traveller's calls are useful to the customer as a means of keeping him conversant with what is doing in the warehouse, and of saving him from missing some occasional special offer that suits his trade. Travellers' remuneration, like that of department heads, commonly consists largely of a percentage of the value of executed orders that were taken by him, or were received direct from shopkeepers on his ground. It is not the usual practice nowadays for warehouse travellers to collect payment of customers' accounts. That practice, which used to be prevalent, has nearly disappeared because of increased postal and banking facilities, and because of the more

satisfactory arrangement of having the warehouse counting-house to deal itself with payments, and with any discrepancies therein.

3. Customers' Warehouse Visits. It is, of course, better for would-be buyers to inspect goods in the warehouse than to judge of them merely by the samples and the books of designs and prices that the traveller carries. In the warehouse the goods can be shown to better advantage and scrutinized more thoroughly, whilst other goods can be seen, samples of which the traveller does not or cannot carry. It is customary, therefore, for the retailer to visit more or less frequently the warehouses with which he regularly deals. His stocks of different articles run out week by week, and if his shop is conveniently situated for visiting the warehouse often, he will probably be seen there almost every week, not unlikely in the afternoon of his own town's early-closing day.

By personal visits to the warehouse a good customer gets the chance of interviews with the heads of selling departments, and of being able sometimes to obtain from them concessions in price, or of getting other offers that would not otherwise come his way. Some retailers make frequent rounds of the warehouses to see what they can pick up out of the ordinary run. The warehouses arrange for periodical "show days," particularly in new season's goods, or for sale days when a season is coming to its end, and they notify regular customers on what dates special shows will be held. Warehouses also issue price lists and catalogues of regular stocks, so that shopkeepers can order by post from these lists when they find themselves in need of articles the lists contain. That, of course, does not prevent customers from ordering through the post at any time, by pattern, description, or price, other goods of a kind the warehouse is known to stock. Wholesalers advertise their goods to the retail in the periodicals of each trade, but they do not, as a rule, advertise to the consumer in the public press.

WHOLESALE IN OTHER RÔLES. 1. As Manufacturer. Reference has previously been made to manufacturers being their own wholesalers, and dealing with the retail direct. Many manufacturers now do that and maintain warehouses, distant from their works, in London and other wholesale centres. But development has moved also in the opposite direction, and wholesale traders have set up their own factories for a few of the chief lines they sell. For a warehouse, however, in the general drapery trade, or one supplying

grocery goods of many kinds, any attempt to manufacture its entire supplies would be quite impracticable. In some instances the wholesaler's entry into manufacture is made by alliance with an already established business, as when a big wholesale grocery concern takes over a jam or a pickle works. A large company, owning one of the best known wholesale drapery businesses in Britain has long had mills for different makes of cotton piece-goods, works for the manufacture of oilcloth and linoleum, and factories for under-clothing and garments of other kinds.

2. As Exporter. Export merchants, in touch with wholesale or other buyers abroad, are established in several centres. Where the orders they get from abroad are big enough to give out to manufacturers the export merchants place them so, even splitting up the processes of manufacture and dealing with weaver and bleacher and dyer separately. When their orders are not such as can be placed that way, the export merchants come to the wholesale warehouse for supplies, whilst at other times they pick up, wherever they can, "job lines" suitable for their connections abroad.

By supplying an export merchant, however, or a foreign trader's buying agent here, our wholesale warehouse does not itself enter directly into the export trade. The wholesaler becomes an export merchant himself, or a real exporter, when he himself gets the order from abroad, and when he himself packs the goods or arranges for their packing and their shipment to his foreign customer. To be the true exporter he also obtains payment without other intermediary than the foreign or colonial bank he employs to collect his draft on the customer abroad; or, as an alternative, he collects payment himself from a bank in this country with which the customer abroad has arranged, probably through his local bank, for the payment to be made. In both the drapery and the grocery business many wholesale traders have long had connections with buyers of British goods in the colonies and elsewhere. They may keep agents in the foreign lands to show their samples, or they may send out samples and prices direct to likely buyers, and wait for resulting orders to come in by mail or cablegram. But manufacturers, also, of numerous kinds of goods, export their products themselves on orders received direct.

3. As Importer. Our wholesale trader, again, may be an importer of foreign-made goods. Some of the goods he sells may have been

imported by others before he bought them ; but some will come to him direct from the foreign makers. The orders he gives for many of the goods that come to him direct may have been placed by him with agents maintained in London, or another city here, by manufacturers on the Continent or even in the States. But more of the goods he receives direct from abroad may have been ordered by his own buyers, who go from time to time to the manufacturers' works and warehouses in the towns of Europe where the goods are made. Examples of goods that wholesalers may import in one or other of these ways are silks from Lyons or Zurich, laces from Calais or St. Gall, gloves from Prague, textiles from Courtrai or Chemnitz, and wrapping or printing papers from Sweden.

Tea, coffee, spices, dried fruits, and similar produce that this country does not grow are not usually bought direct from abroad. On importation these commodities are sold by auction at the London Commercial Sales Rooms in Mincing Lane, where wholesalers can obtain their supplies. The marketing of butter and bacon from Denmark is controlled by the producers' own associations in that country, and canned fruits from America by the growers' associations there. Imported wheat is first dealt in here at the Baltic Exchange in London and the Atlantic Exchange in Liverpool, going to millers before it finds its way as flour into the hands of the wholesale dealers and the bakers. The grain is sold by contract according to grade either for immediate delivery or for delivery so many months ahead. That wheat is capable of being graded with some exactness is one reason why it can be sold by contract before its arrival in this country ; whilst other imports, which are not or cannot be so graded, must be sold by auction even when they are not highly perishable goods.

4. As Retailer. In Chapter III notice was taken of the manufacturer becoming retailer of his goods. As between wholesale and retail the tendency is not so much for the wholesaler to work forward into retail. Rather is it for the retailer to work back into wholesale, though even against the general tendency we may find an important wholesale grocery business controlling a multiple food-shop concern. Many of our wholesale businesses have developed out of retail trade. In London a well-known wholesale drapery house only recently disposed of its retail shop ; whilst several big retail businesses are now conducting wholesale establishments

separately from their retail ones. Recently, again, a drapery trust, formed in London to control a number of retail businesses, took over an old-established wholesale house. Where a shop, ostensibly retail, describes itself as carrying on a wholesale and retail business on the same premises, its wholesale activities usually consist of supplying only some part of the smallest end of the retail trade, and of charging the supplier's own retail prices less a small discount "to the trade."

Where the wholesale business is of importance it will be necessary to run it separately for several reasons. The selling methods of the wholesale trade are so different from the retail that the two cannot conveniently be conducted together. The wholesale sells in different quantities and at different prices, and its customers' ways of buying and knowledge of goods are different from those that the retail's customers show. Moreover, it would not be to the interest of any of the parties that a shopkeeper should be buying along with members of the public, and perhaps meeting customers of his own amongst the public; or that he and the public should see each other buying the same kind of goods at different prices.

The tendency for the retail to step into the wholesale is the result of a desire on the part of powerful retail stores or combinations to cut out the wholesaler from the course of supply. Their object is in part to supply themselves direct from the manufacturer by means of their own wholesale house; and, for the rest, to supply smaller retail shops at the same time. The chief trouble about such a dual function is that a company trading retail cannot also maintain a wholesale connection with other retailers, if its own retail stores sell against the customers of its wholesale department at prices these customers cannot touch. In so far, however, as the big retail house, by cutting out intermediate costs, is enabled to sell to the public at lower prices than it otherwise could, its action in so doing brings about a result that is to the general good. At the present time the relations of the manufacturer, wholesale merchant, and retail trader are in a state of change.

COMMUNICATION IN THE WAREHOUSE. In a warehouse of any size lifts will be installed to take customers and employees from floor to floor, and so save the time of both in climbing and descending many stairs. There will also be lifts for moving goods to save the labour of carrying them by hand from the basement to higher

levels when the goods come in, and back again to the basement when they go out. In some situations parcel shoots may be erected, down which small packages can be made to slide on their way to the dispatch rooms. In other situations conveyors may be constructed to carry packages automatically from one location to another by means of moving platforms and bands, horizontal or inclined.

Every warehouse worthy of the name will have its system of internal telephones. These may be automatic in connection, each caller getting the department he wants by turning a dial, say, to 1 and 2 and 3, if 123 is the number he wants. Or the departmental instruments may be connected with a switchbox or a switchboard at a central exchange for the warehouse service, each department calling there to be put through to the other department with which it desires to speak. In the latter case every departmental line will probably be capable of connection, by Post Office manual or automatic exchange, with any subscriber to the Post Office system outside.

Where the premises are extensive and departments numerous much time may be saved, and interdepartmental communication much facilitated, by a system of tubes for carrying written messages by air pressure. In such a system each department would be connected with a tube-distribution centre, and would receive and dispatch written memoranda or instructions from and to other departments through the centre. For communications too bulky to go by tube an internal messenger service might be organized on similar lines, collections and dispatches being made from and to all departments at fixed times or intervals, by a central messenger office.

QUESTIONS

1. What do you understand by the term "organization" when it is applied to business?

2. Outline the main features in the organization of a wholesale warehouse. Explain how the work of the warehouse is likely to be divided out, and what different kinds of work there will be to divide.

3. Define the term "trade." Classify traders according to the several different positions they occupy in the commercial organization of the country. State very briefly what services each class renders.

4. Describe the duties of a buyer in a wholesale house. Explain some of the considerations he must keep in mind in ordering up future supplies, and in accepting or refusing offers of present supplies.

5. Sketch out a scheme for the delegation of duties in a wholesale warehouse from the principals downwards through sectional managers to their staffs.

6. Indicate some of the duties of unification and control that fall upon the principals of a wholesale warehouse. Explain means used to keep departments working in unison and to encourage a striving for prosperity all round.

7. Explain some of the essential points to be watched in supervising departmental buyers in a wholesale house.

8. Detail the usual features of the relationship of a wholesale warehouse to its customers. How does the wholesale trader keep his goods under his customers' notice ?

9. Describe the work of a commercial traveller for a wholesale house.

10. Outline the different courses that are open to the wholesale trader for supplying himself with the goods he sells. What advantages in particular cases will one course offer over another ?

11. Name some foodstuffs and raw materials that are usually sold by auction on importation into this country. Take one such commodity and explain why that method of sale is specially applicable to it, whilst other imports are sold by contract on the floors of produce exchanges.

12. What are the advantages and disadvantages that, in your view, attach to the combination of wholesale and retail business under the same proprietorship ? What modification in organization will such a combination necessitate ?

13. Give your ideas about a system of internal communication in a warehouse of many departments. Why should the matter of interdepartmental communication be worthy of serious consideration ?

CHAPTER V

ORGANIZATION OF SELLING RETAIL

WE all know the retail shop—the small shop or the big one. We all know it because we all have to use it. As the last link in a chain of supply devised to meet our individual needs, we are all led to use it when we have wants to satisfy. The best shops of a district usually cluster together to make a shopping centre, because certain streets of our towns are by origin or development the most convenient for the populace to congregate in. To many of our kind this cluster of shops is a perpetual attraction, with its displays of articles to wear and of articles to eat, vying one with the other in drawing the public gaze. And of the two kinds the first-named seems to draw with the greater force—with greater force, at any rate, after vital pangs of hunger have been moderately satisfied.

THE USES OF ADVERTISEMENT. The retailer's first duty, like that of all sections of commerce and industry, is to supply our daily needs. But, in the retail as in the other sections, duty is fulfilled through self-interest, which is only saying the other way round that one gets what one wants by giving one's own efforts in exchange. The trader's interest is to push on to us as much of his service and his goods as we can take, so that he will be in a position to claim from the community in return as much as he desires of other things.

In performing his duty, as an incident to his pursuit of self-interest, the trader's first effort in these days is to attract ; but most of us are willing to submit, in part at least, to his alluring, because he draws us in the same direction as our desires impel. In the business world of to-day, " advertisement " is the name we give to the tradesman's effort to attract. Or, in our craze for new sounding names, we call it " publicity "—making known to the public, which is all of us, that the advertiser exists, that he has certain potentialities for pleasing us, and that he is wishful we should use to the full his capability to serve.

Other members of our commercial-social-system are just as desirous to serve him as he is to serve us, and they hasten to place at his disposal the means to make himself known. They that

would be the greatest in the commercial world want to be the servants of all, with this stipulation, that we pay them a surplus over the cost to them of the service they would so willingly give. And some of the greatest among us in that commercial sense are our newspaper proprietors. Taking advantage of our desire for knowledge, or of our curiosity for small talk, and of our now ingrained habit of reading, they serve their news up to us with the tradesman's publicity sandwiched thickly between. The newspaper press of to-day, though existing primarily to supply news, finds that advertisements are its mainstay. When we give our penny for our news we pay only a part of what the news has cost. The advertisers pay the rest, and more, in the hope that we shall purchase their goods because of their advertisements, and so requite them.

There are, however, other aspects of this question. In so far as an advertiser brings to our knowledge something we like to know, he does us a service. If we are disposed to act upon the knowledge, we ought to pay him for supplying it. Also, in so far as, by advertising extensively, he creates a demand of such dimensions as will allow his goods to be produced in great quantities, and consequently at lower proportionate cost, he does the public a further service. The cost of that service the public, who use his goods, should be willing to pay back. Still, the trader's effort to attract is very largely an effort to draw buyers to his shop instead of letting them go their own way to the shop of someone else. It is also an effort to direct their spending to his kind of goods rather than let the spending be done on goods of other kinds. The trader's advertising is, in fact, his chief means of competition—not only with other traders in his own class of goods, but also with traders in other kinds of goods—for as large a share as he can get of the money the public has to spend. In so far as the cost of advertising represents the cost of mere scrambling and struggling for what trade is going, it is waste from the point of view of the community, waste that a more perfect system of distribution would prevent.

RETAIL PRESS PUBLICITY. The press, then, is used for advertisement by the retailer—by the big shopkeeper extensively, by others in varying measure down to the smaller and slower tradesman, who scarcely uses it at all. The big retailer uses it the most, which points to the fact that advertising pays him; for, if not,

the big advertiser could not be in a big way of business. That, however, does not mean that any and every advertisement will pay. For advertisement will not pay if the things advertised do not satisfy when they are bought ; or it will pay only until the worthlessness of the advertised goods is found out by the public. With the retailer, as with the manufacturer, the ideal is that quality, service, and price should together go most of the way to maintain the volume of his sales. Then advertisement can be used for making good losses of custom from inevitable causes, and for extending the connections of the business.

Newspaper advertisements are frequently illustrated in the retail trade with pictures of the goods for sale. The manufacturer sometimes uses a picture that is not a representation of the goods themselves, but is one that he somehow connects with the goods, perhaps in a humorous way. An advertisement in type only does not attract attention sufficiently ; it needs something else to draw the reader on to it. The picture of " plain Mr. York " in some striking attitude is recognizable at a glance, and it tells its tale even if the type-matter is not perused at all. Such a picture brings instantly to mind the article for which the character was invented, and with which the advertiser has inseparably associated him in the public mind.

Food, except in some of its fancy forms, or where some special quality is claimed for it, does not lend itself very freely to distinctive advertising. But in drapery and other goods the newspaper announcements of the big stores are often just like illustrated catalogues. Each article is sketched, described, and priced, so that it can be ordered from the advertisement through the post. A good postal connection can in that way be got together by a live retail-house, always provided the article proves good value for the money when it reaches the purchaser's hands. If it does so, that customer is likely to trust the supplying house, and to repeat the experiment of buying merely by description and without seeing the goods, particularly where the purchaser resides in the country at a distance from the shop. If, however, the article purchased does not turn out to be good value, that customer cannot be expected to send a second order to the same store.

ADVERTISEMENT IN OTHER FORMS. Many of the big retailers keep lists of customers that order through the post. As regards

these customers the big retailer is independent of the newspaper press, and he keeps such customers informed about many of his goods by illustrated catalogues posted periodically. Some retail shopkeepers make use of poster advertisements in their districts ; but that form is not so much resorted to by retailers now as formerly, though manufacturers use it as much as they ever did. Enamelled-plate advertisements on railway stations, and card or painted announcements or transparencies on glass in omnibuses and tramcars, are forms of advertising frequently adopted by local traders ; also screen advertisements in picture theatres. Small bills delivered by hand or by post are used for special notices, and balloons or other toys that please the children, and that bear the shopkeeper's name, are much in favour, too.

Window display and counter display are most effective forms of advertising, and for the shopkeeper they take first place of all. A cleverly dressed window draws the attention of potential buyers more easily than newspaper advertisement does, though its appeal is not so wide. The probable buyer has to come to the window ; but the newspaper goes to him. Window display is, however, more satisfying to the would-be purchaser, because the articles themselves can be inspected through the glass of the window, whereas the newspaper shows a representation that is at best only approximately true. That is why the progressive retailer spends considerable sums on his " shop front," and on fittings for his windows, counters, and interiors. It is why he changes every few days the articles he exhibits in windows and in shop. In the bigger establishments " window dressing " is placed in the hands of experts, who have learned all the knacks and wrinkles of the job, and who continually seek out new ideas and new methods, so as to give their display the variety that keeps it always fresh.

The chance of a bargain is a strong attraction to most habitual shoppers, and because of that fact there lurks a subtle species of advertisement in the shopkeeper's periodical " sales." Originally these special sale-days were set apart for the clearing of end-of-season stocks ; but only some of them retain that feature now, as with many retailers the " sales " come more frequently than the seasons do. It pays a shopkeeper better to sell two articles at reduced price than to sell one at the regular price. It may even pay him better to sell three at some reduction than two without. The

“ sales ” are intended to draw customers in greater numbers. Many of his expenses, like rent, rates, and light, are standing charges that, up to a point, do not increase with increased turnover. “ Small profits and quick returns ” has been a slogan of retail trade so long that it has become a by-word. Where, however, it can be carried effectually into practice, “ S.P.Q.R.” brings benefit to shopkeeper and customer alike. The shopkeeper gets his turnover at proportionately lower cost in expenses ; he keeps his stocks always new and fresh ; and, for the extent of trade done, he uses a smaller amount of capital than would be needed were his stocks held for a longer average time.

INDUCEMENTS TO SPEND. Advertisement and inducement to spend merge into one another, and what we have written on the subjects of display and bargain sales might have been set down with equal consistency under this head. It depends on the class of trade that a shopkeeper does how much he can spend on fixtures and other internal fittings for his shop. The poorest class of buyers is too much concerned to obtain what it needs at the lowest possible prices to have an eye for shop adornment, or any money to pay for shopping in comfortable or artistic surroundings. But competition for what business there is has led most retail traders to spend money in making their places pleasing in some degree to the customers that frequent them. The better paying businesses spend much with that end in view.

The assistants in important shops are instructed always to be courteous and attentive. And, though the truest courtesy arises out of a natural disposition in that direction, shop assistants as a whole usually manage very well in that respect. In a small minority of instances the knowledge that the keeping of their situations depends on the absence of complaints may help to the required end. Nevertheless, the mixed quality of the staff is a hindrance to the thoroughly efficient conduct of a large trading business. Even the most successful proprietor cannot infuse fully into his employees his own enthusiasm and his natural and acquired ability for taking the greatest pains.

A big business needs big premises. Land in a busy centre is limited in its extent and is consequently dear, so that premises have to be made big by extension upwards. That gives many floors, and stairs to climb to reach them ; but lifts are provided to relieve

customers of this irksome trouble and to move them easily and quickly from floor to floor. A London store has now installed an escalator. Generally the comfort of shoppers is anticipated and provided for, where comfort is not inconsistent with the doing of a busy trade. For many people the crowded condition that a big store frequently attains is not their idea of comfort in shopping ; but crowds of possible buyers are just what the store proprietors want. For other people the thicker the throng they can squeeze into in a bargain hunt the happier they seem to be.

In the large stores so many trades are combined in one business that there seems to be nothing unusual in the running of restaurants and cafés and the selling of drapery and hardware goods on the same premises. To do the full round of some of these stores is no light task, so that a rest and tea afford a welcome interval. The café probably has a string band playing for customers' entertainment, the tea, of course, being charged for, the music given free. And, when at last the purchases have all been made, the parcels will be delivered, also free, by motor van next day. This free motor-van delivery over a wide suburban area is a costly service for the big stores to maintain ; but it is one that many of their customers desire and one that competition amongst the stores forces them all to provide.

READY-MONEY TRADE AND CREDIT. In the retail trade the same relation of trader to customer does not exist as in the wholesale. Vast numbers of retail customers are not known to the shopkeepers from whom they buy. From the nature of retail trade they cannot be, because the individual buyer is always free to try one shop this time and another shop the next. Shops being so numerous in towns, customers may not be recognized by a trader or his assistants as having been in his shop before, by the time they come to make a second purchase from him. In the biggest shops, when buying articles they need only occasionally, they are not likely to be recognized. In such circumstances payment at the time of purchase must be the rule.

To local shopkeepers, however, and particularly to those that supply the week's requirements in groceries and provisions, most of the customers are known by sight ; also by address, when the groceries are sent home, as they commonly are. Nevertheless, cash at the time is now the rule here too ; but a rule that in these shops

has more exceptions. Individuals receive the remuneration for their labour weekly in most cases. It is, therefore, in their own interest that they should pay at the time they buy, which means that they pay their way as they go along, and that they are free from the worry of ever getting behind. Also, the person who receives his salary monthly will save himself trouble, if he gets himself into the position of being able to pay at the time. That way is the healthiest way for shopkeeper and customer alike.

Still, many householders ask for credit at such of the local shops as will give it rather than miss the trade of customers who cannot or will not pay at the time. Some of these shopkeepers lose heavily on customers who never pay, and on those who move away and leave the floating balance of their debts behind them. Were shopkeepers all to insist on cash they would be spared such losses, and would, therefore, be able to give a little better value to their customers all round. It is not fair to the householder who always pays at once that his requirements should cost him a little more because some less scrupulous neighbours never pay at all. The man out of work or with means insufficient to support his dependents is a hard and exceptional case. He introduces conditions to which the foregoing arguments do not wholly apply.

For reasons such as we have set out retail trade tends more and more to be transacted on a cash basis. Multiple shops scarcely ever give credit, and so they save, not only the losses of bad debts, but the expense of keeping credit accounts. The big stores, too, take cash as a rule, though they may be willing to open credit accounts with regular customers, and with others if satisfactory references can be obtained. Town shops generally do a cash trade only, leaving to the local shops of the suburbs the less desirable custom of those who run up long bills, also the trouble and expense of getting payment from them. Of course, where a shopkeeper had no doubt about his customer's ability to pay, and where his profits were not so small as to prevent his incurring the expense of keeping credit accounts, it would be foolish of him to insist on payment at the time of sale. Except in the shops of country towns, where credit is more prevalent, it is not usual for the retail trader to send out travellers to solicit orders for his goods.

PAYMENT BY INSTALMENTS. While, however, the old-fashioned kind of credit is disappearing, a new kind of credit is coming into

vogue. The new kind is what we call "deferred payments" or "payment by instalment," sometimes "spread payments" or the "spaced-payment system." The new method fixes by agreement beforehand the dates and the amounts of the payments to be made. In some schemes for purchase by instalments the article to be acquired becomes one's own with payment of the first instalment. "Yours for 10s.," the advertisement reads, though the article in the end will cost pounds. In what used to be known as "hire purchase," it was not one's own until the last instalment had been paid. When the later payments of a series were not forthcoming, those already made became forfeitable, and the articles supplied could be recovered by the creditor who supplied them.

Such an arrangement did not contain sufficient inducement to buy for the pushing super-salesmen of to-day. Hence the newer and more winning set of terms. In many of these agreements, however, the seller still retains the property in the goods, until completion of the payments. But a provision is frequently allowed, whereby a buyer, who fails to complete, shall be able to retain articles to the value of the payments made, less an agreed deduction for expenses. Whether provided for in the selling price or paid for separately by the instalment purchaser, fire insurance of furniture and similar articles sold, and insurance of the purchaser's life, may be required by the seller as security until the last payment is made.

The price for payment by instalments is always a little more than the price for cash paid down. The supplier in this system does for the individual consumer what we found the wholesaler doing for the retailer with scanty capital at his command. He makes good to the consumer his present deficiency of funds by supplying the goods on terms that permit of the buyer's saving out of future income the money with which to pay. So the catch phrase runs, "Furnish out of income." Just as the slow-paying retailer suffered a loss of discount for using his creditor's capital, so the instalment buyer has to pay a little more in price for the seller's advancing to him the whole of the goods before he (the buyer) has had time to save their value.

Credit is an excellent help in business, because it carries the trader over the period between his purchase of goods and his sale of them for cash. It is helpful so long as it is not used in circumstances where there is no practical chance of payment being made by the

time it should. Its service has long been recognized in the custom of paying interest for it. In things of the home it may also be a help. But the conditions of the home make its usefulness there less general than in trade. House rents have been so high in recent years that many persons have used the instalment plan, subject to the conditions of a mortgage, to supply themselves with homes. Many others have been induced to purchase motor-cars on similar terms ; but, whilst the purchase of a house in that way is probably commendable, the purchase of a motor-car may not be so.

There are several reasons for the difference. First, a house to live in is a necessity for which people cannot wait indefinitely ; a motor-car, to most people in this country, is a luxury merely, for which they can wait if they will. Secondly, the house will last and be a possession of value long after it has been paid off according to agreement ; the motor-car, on the other hand, will be derelict in a very few years. Thirdly, the instalment plan is, in the present condition of this country, the most economical way for a person with limited funds to procure a place fit to live in, houses to let being extremely scarce, and rents abnormally high where letting can be obtained. But even house purchase by instalment is a risky business, if the buyer has not a reasonable assurance for a sufficient period of an income adequate to the continuing liability he undertakes. The instalment method does not provide sufficiently for emergencies in which payments cannot be kept up ; and the buyer is faced with the probability of a loss that he cannot afford to bear, should the arrangement have to be abandoned. What is a risky venture when taken for a necessity becomes folly when it is taken for a luxury. The system is said to promote thrift. But the thrifty person is one who carefully acquires things that last. It is a *spend-thrift* who squanders present and future income on things of only passing worth.

America is reputed to be a hotbed of this instalment system. Mass production there on an immense scale necessitates mass demand, and mass demand for articles on the margin of the people's means needs inducements of every kind to move the ordinary citizen to buy. The desire to possess is stirred and encouraged and forced to big proportions by innumerable canvassers trained scientifically in the wiles of persuasive selling. One hears that even in America, land of big wages as it is, highly paid artisans are led

to pledge in advance so much of their weekly income that they have barely enough left to pay butchers' and grocers' bills, and nothing to tide them over a period of unemployment.

For necessities, such as a house and some furniture, or for productive assets such as sewing machines, or a motor wagon with which one may earn a living, the instalment plan of buying can be commended if the buyer's circumstances are favourable to its success ; and then it is good for trade. It creates demand for goods, the production of which provides employment, and yields the wages from which these and other goods are paid for by the consumer. For luxuries and artificial wants that the system induces, it may work safely so long as it is not forced too far. But the method cannot operate with satisfactory results to buyers, or in the end to sellers, when the latter push it so vigorously as to encumber their customers with liabilities too heavy for their incomes to liquidate within a reasonable time.

Finance companies have come into existence which provide the instalment seller with funds for his trade in one of two ways. They may advance to him the value of the instalment sale subject to discount for cash, leaving with him, however, the liability for seeing that all instalments are duly paid by the purchaser. Or they may take over the contract entirely from the seller and become the creditor in his place. Long credit with correspondingly small instalments is not sound, because it makes its appeal to people the margins of whose incomes are too small to justify their entering into any considerable liabilities against them. Seeing a large part of the future earnings of the population mortgaged heavily on this instalment system, one may wonder what will happen to the debtors and to the creditors of the system, when a spell of deep depression settles down on trade.

THE CO-OPERATIVE MOVEMENT. This chapter on the organization of selling goods retail should not be closed without some reference to the Co-operative Movement. The retail co-operative society is owned by the consumers, resident in its district, who buy their goods at its stores ; and it is registered under the Industrial and Provident Societies Acts. To become a member of a retail co-operative society a person pays in or agrees to subscribe £1, or some such minimum sum, as his share in the proprietorship of the business, and he cannot be made liable for anything more. The chief principle

of the movement is that the members of each society combine to supply themselves with the things they need, instead of buying them from private shopkeepers.

Each retail society, from the nature of its constitution, confines itself to its own locality, where it probably has a central store, with branches in the surrounding parts. Most of the branches supply food-stuffs only, other goods or services being obtained at the central stores. The management of the shops is supervised and controlled by a committee appointed by the members. It is a general rule that goods shall be sold for cash only, and they are supplied at something like outside prices. Outsiders, therefore, though not eligible to share in profits, may buy at the stores if they wish. Each quarter the surplus of receipts over the quarter's charges is ascertained and distributed amongst the members as "dividend." The division amongst the members is made in proportion to the purchases of each during the quarter, for example, at 2s. or 2s. 6d. on every £1 spent.

The members are free to draw out their dividends after they have been declared; but thrift is promoted by encouraging them to leave the dividends to accumulate in the society's possession, subject to interest at an ordinary rate. Some part of the surplus on trading is commonly set aside for educational and other benefits to members. The movement stands, more or less effectually, for the observance of moral principles in commerce, such as the setting of its face against false dealing and against adulteration of goods. A committee of working men, however, supervising the management of their society's stores in their spare time, cannot be expected to direct its business as efficiently as the professional man of affairs, who devotes his whole time to a business that is his own, and who has been at that kind of work all his life.

According to recent published statistics there exist over 2,000 retail co-operative societies in the country, with a membership reaching 5,000,000, and a turnover that nearly reaches £200,000,000 a year. When the co-operative principle had been successfully applied to retail distribution it soon became extended into wholesale. A wholesale co-operative society is constituted on lines similar to those followed in the retail, except that its members are retail societies and not individuals. The retail societies subscribe the wholesale society's capital, they buy the greater part of their

supplies from the wholesale society, and they share in the division of its surplus.

The C.W.S., or Co-operative Wholesale Society Limited, with warehouses in Manchester, London, and elsewhere, is an immense distributing concern. It engages also in many kinds of manufacture, having works for the making of boots, soap, jam, biscuits, and other goods. It imports continental produce in its own ships, and it acts as banker for the retail societies that are its members. Scotland has a similar wholesale society in Glasgow, and there are a few purely manufacturing societies fitted into the movement as well. Co-operative institutions, therefore, are not to be disregarded in an investigation of our system of supply. Co-operation is an attempt to cut out middlemen, and to retain their profits for the benefit of the consumers. It is an example of consumers being, not only their own retailers, but also their own wholesalers, and their own manufacturers, too.

The Co-operative Movement has always been closely connected with the working classes, though the societies are not exclusively workers' institutions. To-day the movement has established a somewhat loose attachment to the Labour Party. In the early part of the nineteenth century attempts had been made, under the teaching of Robert Owen, to establish communities of workers who would themselves produce as workers, and distribute to themselves as consumers, the goods they needed. His schemes, however, all fell through in the end. George Jacob Holyoake had been interested in the social reforms attempted by Owen, and in 1844 he was instrumental in starting a few Rochdale weavers on a small co-operative venture in retail distribution. They took turns at serving in their store. That pioneer society was successful, was soon followed by others, and so began the growth of the Co-operative system that exists to-day. In present-day co-operation, however, the relation between a society and its staff falls below the ideal that Owen pictured, and is merely that of employer and employed.

QUESTIONS

1. State what your ideas are about the usefulness of advertising from the point of view of the retail trader and from the point of view of the public.
2. What are the chief means that the retail trader uses to make his business and his goods known to possible buyers ?

3. What qualities in an advertisement, and in the goods it advertises, do you consider necessary in order that the advertisement shall pay ?

4. Explain how it is that a " sale " of goods at less than regular prices may be desirable or profitable business for the proprietor of the shop.

5. Describe some amenities that retail shops offer to-day which shops of former times did not offer, and explain why they are now provided.

6. Contrast window display with newspaper advertising as a means of procuring custom, and explain why retail traders spend so much in making their shops attractive.

7. Set forth arguments for and against (1) the giving of credit by shopkeepers, and (2) the conduct of retail trade for ready money only.

8. Explain fully the benefits to shopkeeper, and to customer, of the policy of " small profits, quick returns."

9. Explain the chief differences in organization between the selling of goods by retail and by wholesale.

10. What is the difference between the " hire-purchase " and the " deferred-payments " methods of selling goods ? Give examples of the application of the latter in retail trade, and explain why it is being resorted to more than formerly by persons with moderate incomes.

11. How is a retail co-operative society constituted and managed ? What benefits does it offer to its members ?

12. How is the Co-operative Wholesale Society Limited constituted ? Name some of the activities in which it is engaged.

13. If you were appointed manager of a retail business the sales of which were falling, what steps would you take to put new life into the concern and to increase the business done ?

CHAPTER VI

LARGE-SCALE SHOPKEEPING

WE have been writing of retail trade as if all retail businesses were conducted in a similar manner. The fact is, however, that the retail trade includes units managed on very different lines. It is true that the small suburban shop of one window, with one counter behind which the sole proprietor serves, and the large retail store, with rows of windows with numerous departments under many managers, are both alike in serving individual members of the public. But they differ greatly in many respects—in their means of obtaining supplies, in methods of procuring business, in the routine even of serving customers, in administrative activities, and probably in their form of proprietorship. Besides, between the extremes of the smallest and the largest establishments of the trade there are many degrees of size and much variety of method. We proceed, therefore, to treat of peculiarities that retail business shows when conducted on an extensive scale.

DEPARTMENT STORES. 1. **What the Departments Sell.** The largest stores sell nearly everything. Each department of a store deals usually in a class of goods that none of the other departments is allowed to handle; and, as the business grows, the departments become more and more subdivided. Without attempting to name all the kinds of goods that such stores supply, we may submit the following as a representative list—

Furniture, carpets, furnishing drapery, pianos, ironmongery, woodware, glass and china, cutlery, silver and electroplate, clocks and watches, jewellery, optical goods, photographic goods, sports goods, toys, gramophones, and wireless goods, books and stationery, household linens and drapery, coats, dresses, furs, millinery, underclothing, men's wear, gloves, umbrellas, handbags, boots and shoes, silks and dress fabrics, ribbons, artificial flowers, groceries and provisions, wines, bakery goods, sweets, butcher's meat, fish, fresh flowers and greenstuffs, drugs and prescriptions, perfumes, hairdressing, luncheons and teas, portmanteaux, baby carriages, removals and storage, property decoration and repairs.

A department store on that scale is a collection of shops of many kinds in one range of premises and under one proprietorship. It offers to the individual or to the household the means of supplying

all ordinary wants at one place. In a large store each of the departments holds a stock of its own goods larger than can be seen in many of the small shops that keep to one kind of commodity. The big department store, therefore, offers an immense variety in the kinds of goods it sells, and a large variety to choose from in each kind. That gives it an advantage in drawing custom, people preferring the store with the extensive stocks rather than the small shop with the limited selections. Further, where the turnover is so huge, stocks are continually being renewed and are always up to date.

2. Responsibilities of a Buyer. The duties of a buyer responsible for a department of a retail store are of much the same nature as those of a buyer in the wholesale. One chief difference is that the man or woman at the head of a department in the retail has to keep the department goods suitably displayed for the individual user who buys in single articles, whereas the department manager in the wholesale has to deal with shopkeepers who buy in quantities, and who are not so easily influenced by mere display. In the retail, as well as in the wholesale, the department buyer has to look ahead, and arrange for new supplies to arrive when they will be wanted. He must know the sources of supply for his class of goods; and he must know the goods themselves thoroughly, so that he can always provide the right articles for his trade at the right price. It would not conduce to successful business for him to order up large supplies, only to find that his competitors were selling similar goods at prices his costs would not allow him to touch. In this connection it is usual for a director or manager to keep a supervising eye on a number of departments whose goods he understands. At the frequent meetings of the Board he discusses with the other directors questions that arise concerning the section he supervises. The decisions of the Board are, of course, binding on him and on all below him.

The department head must understand how to rid himself of stocks without too great a sacrifice of value, when they do not sell as quickly as he had expected. Capital that lies idle in stationary stocks does not earn any profit for the business. It will, therefore, pay the department head to turn stagnant stocks into money as soon as possible, even if he has to lose a little in doing so. The capital so released he can then use to provide other stocks that will sell. In that way he will set it to earning profit instead of lying dormant.

The head of a department must also guide and control his staff. It is his duty to watch that they give customers respectful attention and show what the customers want, that they take interest in effecting sales, and that they keep their stocks clean and tidy and handy. He must see that his department is not over-staffed, that assistants only partly occupied are not running up his wages bill higher than it need be. On the other hand, he must see that the department is not under-staffed, for then customers will be kept waiting, stocks will get out of trim, and routine work generally will fall into arrear.

3. Sale, Payment, and Delivery. The large department store is open from end to end of every floor for the public to walk through and inspect the goods displayed. A customer entering an ordinary shop is expected to have a definite purchase in view ; but in the big store he, or she, can pass from department to department without being importuned to buy. That freedom permits of shoppers being attracted by goods they did not go to look for, and of their frequently taking home articles they had not intended to purchase. The small shops, except in the busiest streets, may pile up their goods round door and windows for passers by to stop and inspect ; but the big stores keep all their stocks inside, displaying them there, however, with much effect in windows and on floors, in show-cases, and from stands. Visitors do, in fact, walk right amongst the goods nearly everywhere, the older practice of reserving a place for customers, and another for assistants to serve from behind a counter, being almost disregarded. Such an establishment is so extensive that one of the commonest difficulties of a stranger shopping there is to find the part of the premises where the article he wants can be obtained.

Ready money is the rule, and cash desks are situated conveniently for customers to pay at before they take their purchases away. Some large shops use a system of cash carriers, payment being transmitted, on overhead wires or through pneumatic tubes, to a cash desk in some remote part of the premises, and the bill coming back the same way with any change that is due. But that method is less in favour than it used to be. Another method is to provide each counter with a " cash register "—a multiple till and mechanical record of receipts, which the selling assistants operate themselves.

Customers usually take their purchases away when the parcels

can be easily carried. When, however, the goods are to be sent home, payment may be made to the vanman on delivery of the package at the house door. Foodstuffs can be ordered day by day over the telephone, and will be delivered in the immediate neighbourhood of the store within a few hours. For the outer area, up to a radius of many miles, a regular delivery service is organized, the more important districts being served daily, others only a little less frequently. It is not unusual for the typical store to keep a fleet of many scores of motor vehicles busy on deliveries. In the London suburbs one may see the vans of Harrods, Barkers, Selfridges, Whiteleys, and others passing every day. A big store's numerous conveyances, continually running to and fro in the streets, are a good advertisement for the store, the benefit of which should not be overlooked in considering the heavy cost that such a service entails.

4. How the Stores Get Their Supplies. Big department stores do not willingly go to wholesale warehouses for their main supplies, unless a warehouse has facilities for providing quantities of particular goods at specially low prices. A store does, however, use the warehouses for things it cannot handle in large enough bulk to buy direct from manufacturers, and for special makes of goods, when the manufacturers of them will not supply except through wholesale merchants. The big stores can themselves order in manufacturing quantities. The biggest are, in fact, bigger than many wholesale houses in the quantities of goods they get through. For that reason they do not feel bound to keep to the old course of supply—from the manufacturer through the wholesale warehouse to the retail shop.

Moreover, the stores do their large turnovers by offering goods at prices which are frequently lower than the ordinary shopkeepers can give. To be able to do that they are obliged to seek supplies at the lowest possible cost. They obtain them, therefore, from any reputable manufacturer, who will supply direct at the same prices as the wholesaler pays. And they do not confine their purchases to makers in this country, but they establish relations with producers abroad who can offer advantages in kind and quality of merchandise, or in price. In their endeavour to procure and supply commodities at low prices the stores render benefit to the public. It is, indeed, to their advantage to let the public know that they keep prices low by buying at first sources where possible. Could they cut out much of their heavy expenses they would be able to supply at lower

prices still. But without incurring these heavy expenses they would not retain their big connections ; and, after all, it is the big connection that is the chief essential in economy of supply.

The big store has, of course, such workshops or workrooms as are still commonly attached even to small establishments in the retail. Such workrooms or workshops are used for dressmaking, millinery, tailoring, baking, upholstering, and so on. In some directions the department store may be led farther into manufacturing ; but for most of the other goods it sells it will probably be content to look to independent manufacturers, in some cases contracting for supplies made to its own designs and perhaps from its own materials. That course evades the risk of tying the selling departments of a store to factories of its own, which may not be as successful in production as more experienced manufacturers outside.

5. Activities Behind the Scenes. The work so far described, of procuring, showing, selling, and delivering goods, does not cover all the activities of the store. Much accessory work is carried on out of public view. The dispatch staff must collect goods from selling departments before delivery can be made to customers. Parcels must be wrapped up and sorted according to delivery districts ; delivery sheets must be written out to be signed by the receivers of the parcels, and to be preserved afterwards as records of delivery. Distinction must be made between goods, payment for which is and is not to be collected by the vanmen. Then delivery vans must be garaged when not in use, cleaned and oiled and adjusted, also repaired when they get out of running order. Accidents, which are rather frequent, must be reported and investigated, claims being made on the insurance offices for damage to material and for injury to person. It will be necessary to keep a section apart to handle articles that customers send back.

As merchandise comes in at the receiving dock from manufacturers and wholesalers a record of its receipt must be made and kept for reference. The quantities received must also be entered up in the order records of the buyers, the goods must be checked off with the invoices that come by post, and the selling prices must be fixed, being probably marked upon the articles before they go into stock. Stockrooms will be needed in which to store goods until the selling departments want them. When the invoices have been passed accounts must be written up from them to show how much is owing

to each supplier, also to show weekly and monthly what purchases amount to as a whole, and what they amount to department by department. Creditors' demands, when they come to hand, must be compared with the books, and corrected if necessary. In due course cheques must be written, signed, and posted to the creditors in settlement of their claims.

On the sales side a recognized procedure for sanctioning credit must be rigidly observed where credit is given. The money taken in the departments must be collected by the cashiers at appointed times throughout the day, and be banked as soon as it can be got ready. The shop checks will have to be summarized in order to check the cash handed over, and to show each department's daily sales. Daily totals added together will give the figures for week and month and year. Ledger accounts for credit customers must be posted up, and statements rendered for payment when due. The accountant's office will deal with the totals of purchases and of sales, also with figures for wages, advertising, rents, rates, lighting, and all the other expenses of the business. Weekly and monthly reports of trading will be compiled for the information and guidance of the management; and half-yearly profit and loss accounts and balance sheets will be prepared. When the business is owned by a public company transfers of shares, lodged from day to day, will have to be scrutinized and recorded in the secretary's office, and dividend warrants will be prepared and paid after dividends are declared.

The work of opening the letters received by each post and of distributing their contents promptly should be assigned to a special staff. That staff must begin its duties early in the morning, so that correspondence for the many departments shall be ready for them at the usual starting hour. In a large business much time will be spent in discovering to which departments or sections doubtful communications should be handed. Much labour must also be expended in carefully investigating and clearing up complaints and queries from customers and others. Advertising activities will occupy an important section, which will contract for space in periodicals, supply copy for the advertisements, procure sketches and printing blocks for illustrations, correct and pass printers' proofs, record insertions and check charges, and see to the compiling and printing of catalogues. A large store needs a detective staff to keep

open eyes upon dishonest persons amongst the visitors to the store and amongst its employees ; also to deal with cases of theft when they occur. An adequate system of internal telephone communication is an essential of efficient working.

Our big store will need a house-maintenance staff to look to the cleaning and upkeep of the premises and equipment, and to the changes decided upon from time to time in the face and lay-out of selling departments. Cleaners will be busy daily before and after business hours. Repairs and alterations will give regular employment to carpenters, electricians, painters, and plumbers. Where alterations and extensions are numerous an architect and draughtsmen may be permanently employed. There will be a staff office to record engagements, employment changes, and dismissals. Kitchen or canteen will be provided for staff meals, and some arrangements are likely to be set up for the care of staff in sickness, and for recreation out of business hours.¹

MULTIPLE-SHOP CONCERNS. 1. **How Multi-shop Business Spreads.** The multi-shop method of retail trading is of quite recent growth. It has invaded one trade after another till now we find it in meat, fish, provisions, dairy-produce, teasshops, sweets, tobacco, drugs, boots, clothes of many kinds, furs, jewellery, and books. Even a personal service like hairdressing or dentistry is now carried on by multiple-branch concerns. Coal is commonly supplied by distributing companies with many depots and order offices. The banks are an outstanding example of multiple places of business, each of our five largest banking companies having branches running into four figures in number. Another example is the bazaar type of business that sells small articles at sixpence or less and has shops in all our larger towns. The "co-ops," too, though each society is locally independent, are all branches of the same movement, and are bound together by a common tie to the wholesale society, of which they all are members.

¹ Sometimes the attempt is made to represent the organization of a store or other big business by a table or diagram of departments. The attempt, however, can scarcely be a successful representation of the facts. A table gives the same prominence to a department doing £100 a week as it gives to one doing £1,000 or more. Besides, merely accessory departments tend to take up too much of the tabular plan or diagram. It must be remembered that buying and selling are the principal activities always, and that the importance of this or that section varies in particular businesses, and depends on the circumstances of each. Moreover, the inter-connections of departments are too complex to be truthfully presented in diagrammatic form.

The largest "chain-store" businesses are owned by joint-stock companies, and many of them trade with capital that has been raised from the general public. They deal in any commodities that can be readily distributed from a central depot, also in some things such as fish and English meat for which, because of their perishable nature, that method of distribution is not suitable. The only condition they seem to require for successful trading is that the articles they set out to sell shall be goods in large and constant demand, and not articles in small and erratic demand, like costly paintings and similar works of art. But, with the population we have in our urban districts, there is very little in these days for which a continuous demand does not exist.

2. Head Office and Control of Branches. Every multiple-shop business must have a head office from which the branches can be controlled. The head office is the nucleus of the business round which the branches are grouped. From the head office there pass out instructions and less definite influences that unify the branches into one organization, with the same policy and practice followed in all its shops. The head office is usually also the supply depot from which goods are dispatched to branches as required. But, where the branches are very widely spread, district supply-depots may be set up. For example, a group of shops in London would obtain supplies daily or at other short intervals from a warehouse depot in the London area. In that way long-distance transport is made in bulk with a saving in charges, and local distribution is effected quickly, so that delays in procuring supplies are obviated.

The head office may be situated at the factory of the business, where all the goods that the branches sell are made. It may, however, be only a central office from which supplies are ordered up from outside manufacturers, to be delivered direct to local depots or to the branches themselves. Again, the head office may be a warehouse that collects and distributes the supplies itself. Or, again, part of the goods for the branches may be manufactured at the head-office factories, the remainder being bought outside.

With branches distant, and some of them very distant, from head office, an efficient system of branch inspection must be kept in operation. Each inspector will have a district, including a number of branches, to look after. He will supervise the condition of the shops, the windows, the stocks, and the service, and he will deal with

irregularities and difficulties that crop up. His visits to the shops should be timed irregularly so that branch managers will never know when he is coming. If left to themselves too much, some managers would get into loose ways, absent themselves part of the day from the shops, and take up outside interests that would clash with attention to trade. Occasionally the inspector will count the cash in hand to see that it is intact, and once in a while he will superintend a stocktaking at each branch. With a large number of branches in one business it would not be practicable for inspectors to take stock at all the shops simultaneously, on the close of the year or half-year. But, when selling prices and rates of profit are fixed by head office, earlier stocktaking figures would be adjusted there, by adding supplies and deducting sales from the date of stocktaking up to the end of the trading period.

Supplies to branches would be charged out to them by head office at selling prices, with the view of making any leakage in stocks more easily detected. The commencing stock of any period, plus the supplies and minus the sales of the period, if all taken at selling price, will show what the closing stock should be, also at selling price. When articles are such as bear tickets or labels, each article is usually given a distinctive number, and head office keeps a record of the numbers sent out to each branch. On every sale check the number of the article sold is stated, and a duplicate of the sale check comes to head office. As an alternative the ticket of the article sold may be returned along with the duplicate of the check. In the record at head office of the articles in stock at each shop, every number sold is marked off from the duplicates or from the tickets received. That procedure, if carried out faithfully, discloses exactly which articles have not been accounted for, when discrepancies in stocks are found. Goods that cannot be numbered, as butter or rice or bacon, can be checked by weight, whilst others, like tins of fruit and salmon, can be checked by comparing how many tins were charged out, how many have been sold, and how many are still at the shop.

It has already been stated that in multiple shops ready money is the rule with customers. The cash taken each day is banked at a local bank by the manager of the shop, and it is transferred daily or weekly to that branch of the same bank at which the head office of the business keeps its account. The shop manager sends to head

office the counterfoil of his paying-in slip stamped by the local bank's cashier. He also sends a daily report of his takings, accompanied by the duplicates of all the shop checks made out for the day's sales. At head office the total of the duplicates is ascertained on the adding machine ; it is checked with the bank pay-in slip, and from time to time the totals are compared with the entries in the pass book of the head office bank account. Along with his daily report the manager sends to head office a requisition for any supplies or equipment that he wants. Once a week he also sends his wages sheet, the amount of which he is probably instructed to draw out of his takings, the payments to be vouched for by a wages receipt signed by each employee on the shop staff.

3. The Multiple Shops and the Stores. A large multiple-shop business with its big turnover of goods has the same advantage as the stores have in procuring supplies at first cost. These shops are, therefore, in a position to compete with the stores in price ; and some of them help—if all of them do not—to keep prices down in other shops. Like the stores, however, they have heavy expenses to meet. Much of the difference between their buying and selling prices is absorbed by high rents or big premiums for leases of premises in busy streets, by rates proportionately high, by provisions for writing off the initial cost of new shop fronts and new equipment, and by the maintenance of poorly-paying branches in places where the trade to be done is not enough for all the shops that are there.

Then, many managers and staffs, without constant supervision, do not put the same interest into their duties as proprietors would themselves. Still, something is to be said for them in that respect, as conditions that deprive them of initiative, and that subject them to irksome or irritating restrictions, are not the best for keeping the interest of employees keen. As against the stores type of business the multiple shops enjoy one clear advantage. By opening branches in residential suburbs they take their stocks to their customers, whilst the stores, which must be centrally situated to draw big trade, require their customers to come to them.

MAIL ORDER BUSINESS. A " mail order," " post order," " letter order," or " country order " section is attached to most of the big stores. There are in existence, however, businesses that do nothing else than post-order trade, working from warehouses or factories,

without providing shop windows and counters for personal trade. The chief feature of the regular business of this kind is a catalogue posted season by season to addresses on the list of customers. The catalogue may or may not be supplemented by advertisement. Some of such trading concerns rely on advertisement alone, particularly those that are in the business only for a time, who do not look much beyond first orders, because their goods are of a quality that buyers are not likely to want a second time.

It is a common practice to "key" advertisements by a number or a letter introduced into the address. Readers of the advertisement are asked to write to "Dept. 48," for example. Then, the answers received can be counted and divided into the price of the advertisement, so that the cost of each answer is obtained. A more accurate test is to advertise an article, now and again, in one medium exclusively, and to note against the cost of the advertising how many of the articles are sold. Usually the mail-order trade is a cash-with-order trade, though considerable business is now done under the facilities that the Post Office provides for the collection of payment on delivery. The less satisfactory kinds of this order-through-the-post trade may be conducted on the instalment plan.

Mail order business developed on the North-American continent with the development of postal and transport services. There a large agricultural population, scattered over vast areas, found that it suited its circumstances to order from Chicago or Toronto, not only household and personal needs, but requirements for the farm as well. In this country retail buying through the post has never reached the proportions it has done there ; but it is practised widely, and is useful more especially to country customers living far away from the better kind of shop. Mail order businesses here have also done considerable trade with some of the British Colonies and dependencies, settlers there finding it little more trouble to buy direct from the home country than to send for goods from Cape Town or Rangoon. For colonial trade the cash-on-delivery system can be used ; but it is advisable, except with customers one knows well, to stipulate for a substantial deposit with the order. The mail order business can grow to big proportions, as its operations are not confined to one locality. The whole of this country is open to its activities, and parts of other lands, besides.

The index of customers is the key to this kind of business. Too

much care cannot be expended in keeping the list of customers accurate and up-to-date, new names being added, "gone-aways" removed, and changes of address inserted. Records should also be made of the orders each customer sends, so that catalogues shall not continue to be addressed to one-time customers for years after they have ceased to buy. A card index in geographical sections, with the names in strict dictionary order in each section, is the best form for the register of customers. The cards should be such as are adapted for use on one or other of the several makes of addressing machine now on the market ; and each card should take in concise form a record of orders for several years, as well as the customer's full name and address.

Patterns of fabrics and samples of other goods may be asked for by would-be buyers before they decide whether to order or not. Facilities must be provided to deal carefully with inquiries for these samples, to supply other information desired, and to "follow up" the answers to inquiries when orders do not come to hand in due course. Orders, when they do come, must always be handled with every attention, as customers can be lost only too easily. A little want of care may cause goods of the wrong kind to be sent, or wrong quantities, sizes, or colours. Omissions or delays may be inadvertently made in execution ; parcels may be misdirected or insufficiently addressed. A customer buying personally in a shop can correct such errors at the time. But the customer at a distance finds it exasperating to have to send back goods that were not ordered, and to write explaining all over again what the requirements are.

THE LARGE AND THE SMALL RETAILER. Much is heard of the large scale shopkeeper squeezing the small man out of business. Yet small shops still exist in great numbers, whilst new men still begin in quite small ways, and work up gradually but surely to businesses of larger size. Many of our biggest stores have grown from very modest origins.

The large business has several advantages over the small one. Its advantages in buying have already been emphasized. With stocks of goods of numerous kinds, it can sell to the average customer more articles at one time than the small business can, which has only a few kinds to show. To effect an increase in his sales, the big man needs only to get a present customer to buy some other

of his many kinds of wares ; but the small man must get an entirely new customer if he has no other kinds to offer, and that step is more difficult to accomplish. In times of trade depression, or in the throes of excessive competition, the big man's greater resources give him greater staying power, and enable him to hold out against difficulties that the small man could not withstand.

On the other hand, the small man enjoys several advantages over his great competitor. The more a business extends, the more troublesome becomes the work of managing it efficiently. The big proprietor must carry out nearly all his business duties by deputy. The result is that the duties often receive merely routine attention, whereas the small man adds to routine the personal interest and care that cause the work to be so much better done. In the large-scale business the relation between customer and trader is almost entirely impersonal ; but between the small man and his customer there exists a feeling of personal relationship that is often strong enough to resist all the special attractions the large business can exert.

The small proprietor has only himself to teach by his experience ; but the big proprietor has all his managers to lead to an appreciation of the lessons he himself has learned, and not all of them prove to be the aptest pupils. To keep in touch with what goes on in the many departments of his business the big man gets daily and weekly reports, and sheet upon sheet of statistics. The preparation of these adds to the expenses of the business, and they multiply in bulk and in cost as the years go by. The small proprietor, however, does not need sheaves of reports to tell him what is going on, and so he saves their cost. Seeing and hearing for himself what his helpers are doing, he gets at first hand a fuller and a livelier impression of their efforts, and of the results, than reports alone can give.

QUESTIONS

1. Describe briefly four different plans on which the retail trade of to-day is organized.
2. Name the chief forms in which large scale retailing is carried on. Compare and contrast any two of the forms you name.
3. Describe the chief features that are peculiar to department stores, and explain the special attractions such businesses exert on the buying public.
4. Describe briefly the organization of a department store. Deal

with (a) the management of selling departments, (b) the auxiliary activities of the store, and (c) the administrative work at the head.

5. Describe in some detail the duties of the buyers in a department store, and explain from what sources they obtain supplies.

6. Discuss the growth of the multi-shop form of trading, and describe briefly how the multi-shop business is organized.

7. Explain in some detail how the branches of a multiple shop business are controlled in regard to (a) goods, (b) cash, and (c) management generally.

8. Give your views on the advantages or disadvantages of the multi-shop method of retail trading from the points of view of the proprietors and of the public.

9. State shortly the difference between multiple shops and department stores, and explain what conditions are necessary to the success of each of these types of business.

10. Contrast the service rendered to the consumer by manufacturers' retail selling-branches and by retail co-operative stores.

11. Explain how mail order business is conducted and organized, and show in what circumstances buying through the post is advantageous to the buyers.

12. Discuss the advantages or the disadvantages offered to the buying public by the large-scale retailing of department store and multiple shop concerns.

13. Describe how a mail order business or department would (a) keep record of its customers and their orders, (b) check the returns obtained from its press advertisements.

14. Explain how and in what points the conduct and supervision of business is more efficient and less proportionately costly, (a) in the large type of retail establishment, and (b) in the small one.

15. What are the small tradesman's most effective weapons with which to fight the competition of multiple shop, department store, and mail order companies?

CHAPTER VII

ROUTINE IN THE WAREHOUSE

WE have explored the services that wholesaler and retailer render in the distribution to the community of the commodities that it needs or desires. We have passed in review the general organization of wholesale warehouses and of retail shops and stores of different kinds. We have considered various conditions in which these businesses function, and various courses they adopt to maintain their trade and extend it. Now we have to take a closer view of their internal routine, and to study in more detail their methods of operation.

THE RECORDING OF ORDERS GIVEN OUT. When the buyers in a warehouse give orders for supplies they should invariably keep a copy of each order given, unless, perhaps, when small lots of goods are ordered over the 'phone to be delivered right away. Business cannot be transacted satisfactorily by trusting to one's memory, or to informal memoranda ; and a formal copy of the order will be necessary to clear up misunderstanding or dispute between buyer and supplier, if that should arise. Each order is commonly written in duplicate by carbon leaf, one copy being handed or sent to the supplier, the other retained in the order book. All orders should be written plainly, and care should be taken to see that quantity, description, and price are clearly and correctly stated. Every order should, of course, be dated and signed. It is also advisable that each should be given a serial number for its easier identification, and that the supplier be requested to quote the order number on his invoice when he sends in the goods. As an order book is usually a book of printed forms, the blank spaces of which are filled in with particulars of the goods required, the numbering of the forms is done when the book is printed.

Each buyer will keep his own order book or books, as he will frequently need to refer to the orders he has given. Different order books may be kept for different kinds of goods ; but, in any case, a special book ought to be used when the goods ordered are not to be delivered for some time to come. Delivery of such orders may

ORDER

Telephone : Wallside 5522

No.....3604.....

Telegrams : Brod Gibbs Cent London

CRIPPLEGATE SQUARE,
LONDON, E.C.2.. 10th January, 19..

To..... *The Knitwear Manufacturing Co.....*..... *Soar Valley Works, Leicester..*

FROM

BROWN, DOBBS & GIBSON, Ltd.

QUANTITY	REF. NO.	DESCRIPTION OF GOODS	PRICE
1500	B216	<i>Three-piece Suits</i> <i>Colours 212 216 218 221</i> <i>Quantities 200 500 500 300</i>	15s. 6d. each

SIGNATURE... *R. Marsh,*.....

DELIVERY REQUIRED ON:.....

..... *From 1st April onwards as required.*.....

PLEASE QUOTE THE NO. OF THIS ORDER ON YOUR INVOICE

MEMORANDA—

VALUE OF THE GOODS OR- DERED	DELIVERIES MADE				VALUE OF THE UNDE- LIVERED BALANCE	
	DATES MADE	QUANTITIES AND DESCRIPTION				VALUE
£					£	£
1162	April 3	Colours	212 216 218 221	£		
	15	Quantities	50 75 75 50	194		968
	May 1		— 75 75 —	116		852
			50 100 100 100	271		581

be required by instalments, and definite dates may be named in the orders, or the times of delivery may be left open for instructions afterwards to be supplied. Every manufacturer or supplier that accepts an order for future delivery should be required to send a written "confirmation." Without the production of his signed acceptance, his promise to supply the goods could not be enforced against him, where the value was £10 or over. When goods have been received and the invoice is being passed, the order book should be marked to show the passing of the invoice and the date. Faithful adherence to this rule will prevent a second invoice ever being passed for the same goods. If only partial delivery has been made the marking in the order book should show what part has been received, and when.

BUYING COMMITMENTS. The special book, for recording orders to be delivered in the future, should be in such form as will readily disclose at any time the extent of the commitments in respect of these orders. On pages 70 and 71 a suggestion is submitted for this special order book. The copy of the order that is detached from the book and sent to the manufacturer is the top copy of only the first page of the order shown. The second page, which has no corresponding upper leaf, is designed to keep a record of (1) the total value of the goods ordered, (2) the date and quantity and value of each delivery made, and (3) the value of any balance still to come. Periodically a signed report of all these commitments would be required of each buyer in a form like the following—

DEPARTMENT.....BUYING COMMITMENTS ON19..

NO. OF ORDER	NAME AND TOWN OF MANUFACTURER	KIND OF GOODS	DATE FOR DELIVERY	TOTAL VALUE OF ORDER	VALUE OF BALANCE TO COME	PROBABLE DELIVERY DATE OF BALANCE

BUYER'S REMARKS :

BUYER'S SIGNATURE.....

These reports would be scrutinized carefully by the general manager or managing director, and after due consideration would be filed in his office for reference when required. Any laxity or misrepresentation discovered in them would be looked upon as a serious offence. The order books would, of course, be produced if wanted ; and, to ensure sufficient accuracy, it would be as well if the figures of the buyer or his clerk were checked by independent calculation. The extent of a buyer's commitments is important, because sooner or later the goods will come in, and provision will have to be made to pay for them.

ATTENTION TO STOCKS ON HAND. A good plan to follow in the care of stocks is to divide all the goods of a department into sections, and to put an assistant in charge of each section. It will be the assistant's duty to see that his section is kept clean and straight. Articles that have been deranged in serving customers or in getting up orders should not be left lying about, but should be put back in proper place and in good order without delay. Each assistant will be held responsible for reporting to the buyer when any of the goods of the section are getting so low that new supplies are wanted. A blank form can be used for that purpose, each assistant filling in what his requirements are. Delays and omissions in ordering will then be less likely to occur than when oral reports only are relied on. Sales should not be lost because of carelessness in that respect.

Where deliveries of supplies have been heavy, a portion only may be put in stock, the rest being held in store as a reserve to be called for as required. In some businesses a stock card may be kept for each kind of article held. Supplies received will be entered on the left side of the card and sales entered on the right, so that the difference between the sides will always show what quantity is on hand. In most trading businesses, however, that method would not be used. It is, of course, the duty of the department head to see to the clearing of stocks that do not sell ; and for his information on that point he may from time to time require each stock-keeper to make a list of what stocks he has on hand.

MANUFACTURERS' TRAVELLERS AND AGENTS. A considerable part of a department buyer's time is usually taken up with interviewing travellers and agents who call to show new samples, or to look for any order for their regular goods. Quite commonly a time of day is fixed after which travellers will not be seen except by

appointment, and a notice is prominently posted giving warning to that effect. Buying or sample rooms may be provided where goods can be shown and inspected with greater freedom than would be possible in the open warehouse, when other travellers and customers were hanging around. In the large cities, where the wholesale demand for their products is greatest, many manufacturers either have a selling staff and office of their own, or they keep a selling agent to show their goods. When a buyer finds it necessary to make some request, demand, or complaint, he calls the agent or the local salesman in. It is of some benefit to the buyer to find a man on the spot to whom he can explain; and the manufacturer keeps the agent there so that he will have every chance of picking up every order he can get.

The ordinary traveller or salesman is the manufacturer's servant; but the agent is in business on his own account. As a rule the agent provides his own office in the city where he is located, and he is probably free to serve as agent for other manufacturers supplying other goods. He is not paid by salary, but by an agreed percentage on the invoice value of all the goods delivered by the manufacturer to the agent's customers, less any returns the customers may make. Many of these agents represent manufacturers in this country; but many act here for principals abroad. Payment to British manufacturers is made by the customer direct. Payment to foreign manufacturers may also be made direct by cheque or bank draft; but the agent of a foreign supplier has often authority to receive cheques and pay them into his principal's banking account in this country. Some foreign manufacturers, again, ask for the payments due to them to be made to the banks here where they keep accounts. Funds lying in a British bank are useful to a manufacturer abroad who buys raw materials or mechanical equipment in this country. He can use the funds for paying what he owes here, or even for paying what he owes in another country not his own.

THE CLEARING OF IMPORTED GOODS. The title to goods consigned here from abroad is a bill of lading that is issued by or for the shipowning company receiving the goods abroad, and that is sent to the importer here by his foreign consignor. If the bill of lading for such goods is made out in the wholesale warehouseman's name, he must endorse it, and must surrender it to the shipping company or its agents before he can get the goods. But much of the

merchandise from continental towns is handed by the manufacturers to transport agencies abroad, these agencies consigning the packages to agents in London and other British ports, in conjunction with whom the foreign agents work. The formalities of procuring the goods from the ship or the dock warehouse, of entering them at the custom-house, and of paying the import duty when duty is required, are then carried through by these transport offices. The wholesale trader importing the goods has, in such circumstances, little else to do than hand the customs duty to the clearing agent for him to pay it over, and to pay the freight and other charges on delivery, or afterwards, where a credit account has been arranged for.

Should the wholesaler have to attend to the formalities himself, the chief matters are—

1. Entry at the custom-house on the forms prescribed¹ of the description, quantity, source, and value of the goods, and of the importer's name and address.

2. Payment to the customs officer of the import duty, where the goods are subject to duty levied on them by the British Government.

3. Unless the goods are to be delivered free by the manufacturer, payment of the dock dues here and the shipowner's charges with, perhaps, other charges incurred on the packages abroad.

4. Arranging and paying for conveyance from the docks to the importer's warehouse.

Should any difficulty arise the buyer can seek the help of the manufacturer's selling agent in this country.

THE SUPERVISION OF TRAVELLERS. Each selling department must have a regular routine for providing the travellers of the business with samples of new goods received, for ticketing, numbering, and pricing each sample, and for stating the quantity on offer, where the samples represent a clearing line. Each department must also see that samples carried by the travellers are withdrawn when goods are sold out; and that every traveller is notified when a revision of price is made. Through laxity in the provision of samples of new goods orders will be missed by the department; and, through laxity in the withdrawal of samples of exhausted stocks, orders will be received that cannot be executed. The result will be disappointment, trouble, and annoyance to customer and traveller alike.

When a traveller is working in the vicinity of the warehouse, he will return to the warehouse daily to hand in his orders, to pass

¹ Obtainable at H.M. Stationery Office or at mercantile stationers.

on instructions or complaints from customers, and to report on his day's work to the director or sales manager who supervises his activities. Where the traveller works farther away, he may return to the warehouse once a week, probably on Saturday morning, and make his report then. The orders he has taken during the week will have been posted on in the evening of each day. A traveller or agent covering ground at greater distance from the warehouse will come in at longer intervals only, and will maintain touch with headquarters almost entirely by post. Each traveller usually carries an order book of the carbon-duplicate type, posting on or handing in to the warehouse one copy of each order taken, and keeping the other copy in his order book. Any letters he sends to headquarters should be written in carbon duplicate also, in a letter book supplied to him for the purpose.

The extent of each traveller's daily business will be scrutinized by his superior as his daily batch of orders arrives. It will keep the traveller interested in the extent of his figures, if he is given each week a slip with the approximate value of the orders he has taken every day, less the value of orders that cannot be executed and of goods that customers return. In his interviews with, or written reports to, his supervisor, the traveller will explain, if he can, why orders could not be booked from some of the calls he made, and why he has done specially well on others. He will submit applications for concessions beyond his own power to grant ; and, should any question be urgent, he will communicate it by telephone, with the likelihood of obtaining an answer for the customer at once. His superior will watch that the traveller works his ground thoroughly and methodically.

COMPILING TRAVELLERS' RETURNS. In addition to the orders he takes himself the traveller will get credit for orders given by his customers when in the warehouse, or sent by them through the post. A continuous and carefully compiled record of orders executed will be kept for each traveller's ground. This record is necessary for two purposes, (1) to see that the business from each ground is being maintained, and is worth its cost ; (2) to enable the commission to be calculated, which falls due to each traveller on the trade he does. The record can be compiled day by day very satisfactorily on the plan we now outline.

Every order from a traveller should be stamped with his name

or distinctive symbol ; and, when the order is executed, the entry or slip from which the invoice is typed should be similarly stamped. The carbon duplicate of the invoice, which serves as basis for the entries that record the sale in the account books, should be marked with the same indication ; also the duplicates of invoices for orders that customers place direct. Then, before entry in the counting-house books, the duplicates of each day's invoices should be arranged so that all one traveller's come together. From the counting-house record of sales, entered in that order, the daily total of each traveller can easily be ascertained, and the totals of all travellers can be agreed with the full total of sales for the day. Daily totals will be summarized into totals for each month, and monthly figures into totals for the year for each traveller's ground. The final summary should be constructed to show on the same page monthly comparisons for preceding years.

Efficient supervision, however, of travellers' salesmanship and of customers' purchases needs something more. The increase or decrease of trade on any given ground cannot be fully understood without investigating the trade done year by year with the individual customers on the ground. With that object in view a record should be made of the monthly totals of trade done with each customer of importance. A card of sufficient size should bear on its front the customer's name and full address, should state the kind of business he carries on, and should show the limit of credit fixed for the account, the length of credit or rate of discount the customer takes, and the Reference No. to filed information regarding his financial status. Space should be left for remarks. These cards should be kept on the card index principle, a separate index for each traveller's ground, with the cards arranged in dictionary order according to the customers' names. The back of each card should be ruled to show monthly and yearly sales in pounds for a number of years, as in the form on page 78. The figures for this record would be extracted from each customer's ledger account. A departmental analysis of the figures could be made, but that might cost more than its benefits would justify.

RECORDS OF ORDERS RECEIVED. Businesses vary so much, even in wholesale trade, that no scheme of recording orders received can be elaborated that will be suitable for all. Still, the suggestions offered below should prove useful in many circumstances. Two

considerations are important—first, that the records made shall be sufficient to the requirements of the particular business ; secondly, that the system of record shall be devised so as to attain efficiency with the least amount of work. Prompt execution of orders is an

BACK OF CUSTOMER'S RECORD CARD

MONTH	1928	1929	1930	1931	1932	1933
January .	£	£	£	£	£	£
February .						
March						
April . .						
May . .						
June . .						
July . .						
August . .						
September .						
October .						
November .						
December .						
Total .						

essential of successful trading, and the keeping of efficient records will help to prevent delays in execution.

1. Orders for Immediate Execution. One procedure adopted is the old one of entering laboriously in a Customers' Order Book full particulars of customer, address, goods required, time of delivery, and so on, for every order received. The other extreme, in the hustling conditions of to-day, is to enter nothing at all. Orders, as they come to hand, are simply passed on to the selling departments concerned, for the goods to be got out, charged up, and sent off. In many businesses it is not necessary to copy out in full

orders for execution at once. Nevertheless, it is advisable that each order be given a consecutive number, the number to be repeated on the charge entry when the goods are sent ; also on the invoice, and on the entry of dispatch which shows that the goods have left. The order number, repeated in these several entries, serves as a link to connect the entries with each other and with the order to which they all relate. Where the business is a large and active one some little record will be necessary before the orders it receives are handed on for execution. That record, however, need not comprise more than the serial number given to each order, the date of issue to the department, the customer's name and address, and the name of the department to which the order has been sent.

2. How Order Records Can be Kept. The particulars to be recorded can be typed in duplicate by carbon leaf on loose sheets of blank forms kept for the purpose. Then one set of these forms can be kept in the issuing office by an order clerk, and can be arranged alphabetically for ready reference, on a file marked, CUSTOMERS' ORDERS ON HAND. The other set of copies can accompany the orders on their round of execution and dispatch. Each original order will be attached behind its form, which will serve as a facing sheet. When, however, an order relates to two or more departments, extracts from the original will be made for each department ; and in that case the facing sheet will show how many extracts there are, so that they can be collected for packing, and the goods for all dispatched together. After each order has been executed it will be returned to the order clerk with particulars added to the form of how and when dispatch of the goods was made. The returned orders, still with the facing sheet attached, should then be placed neatly, *in the sequence of their numbers*, on a separate file marked, CUSTOMERS' ORDERS EXECUTED.

When each order has been returned to the order clerk, he should take the duplicate of the facing slip from the file of Customers' Orders on Hand, and should mark it with the particulars of dispatch. If these duplicates of orders executed are then placed by him on a third file *in alphabetical order*, any executed order that may afterwards be wanted can be found quickly, either by its name on this third file, or by its number on the second file. Inspection from time to time of the first file—that for Customers' Orders on Hand—will show what orders, if any, are being held too long. Steps

can then be taken to remove the causes of delay, and to hasten dispatch of the goods.

3. Orders for Future Execution. It will be found not only advisable but necessary always to keep a careful record of customers' orders, the goods for which are not to be delivered for some time to come. But, should the old-time method of ordinary book-record be used, the entries would be made, one following another, just as each order was received. Then an index to the entries would be needed in addition, if the record of some particular order were to be found without loss of time, when wanted. Provided the work is done with care, there is no reason why the entries for such orders should not be made on loose facing-sheets of uniform size, in the way we have described for orders to be executed at once. The original orders, each one attached neatly behind its facing sheet, can then be kept, much more handily for reference, arranged in strict alphabetical order on a file named **ORDERS FOR FUTURE EXECUTION**. An index to the records so arranged will be quite unnecessary. If preferred, these orders can be kept arranged according to their delivery dates ; and, in either case, as the times for delivery approach, the orders will be taken off that file to be dealt with then as orders for immediate dispatch.

THE EXECUTION OF ORDERS. In getting goods out of stock in fulfilment of an order, care has to be exercised to see that the right quantity is taken, for complaints are frequent of wrong quantities being sent. Care has to be exercised, also, to see that the description, quality, and price agree with the order ; and, where different colours and sizes are supplied, it must be seen that only those are sent which the customer requires. Sometimes, when an article ordered is out of stock, the liberty is taken of sending on the nearest that can be supplied, and a note is made upon the invoice that the article sent is the "nearest we can do." Unless, however, goods of similar kind and similar price can be sent in place of those ordered, it is better not to substitute.

Nor should that liberty be taken with a large quantity of goods ; for, if an order is not executed exactly, the customer has the right to return the goods without paying carriage on the parcel. On the other hand, a shopkeeper may be pleased to have the nearest sent him, when he specially wants something about the price he names. In such circumstances he often orders a certain article he

indicates, or the "nearest you can do." In wholesale drapery warehouses, as an inducement to customers to order immediately goods that they will want later on, it is a common practice to date the invoice forward to a following month. For example, goods may be bought on 10th February, "as 1st March," to be paid for with the other items in the March account.

THE CHARGING OUT OF GOODS. Charging the customer is commonly done by entering the goods in a charging-out book kept in the selling department. Article by article, or lot by lot, the quantity, description, and price are called out carefully to the entering clerk. Then, to make quite sure everything is right, the entering clerk takes the goods and calls them over again to the warehouseman at the book. This warehouse entering-book should be such that a duplicate of each entry is made by carbon leaf, the top leaf being perforated for tearing out. If the leaves are long they may be divided into spaces, numbered by the printer consecutively from the beginning to the end of the book, the top leaf being perforated across into slips corresponding to the numbers.

Each torn-out slip or docket goes to the dispatch room, and there the quantities are checked with it again, whilst the goods are being packed. Each slip should be initialed by the packer as well as by the checker in the warehouse. We have already explained that all extracts from each post order are collected from the departments before the packing is done, so that all the goods ordered shall be sent in one lot. When the customer has bought the goods in the warehouse himself, a collation slip is given to him and is initialed by each of the departments in which he buys. As he leaves the warehouse he hands in the slip at the door, and at the same time he gives instructions about how he wants the goods sent. The slip shows to the packing room from which departments parcels must come to complete the order.

The copies of the warehouse charge-slips are passed on as soon as possible to the invoice clerks. From the copies invoices are made out and posted to the customers so as to reach them before, or not later than, delivery of the goods. The slips are first calculated out, and then the invoices are typed from them. Carbon copies of the invoices are kept, and from these the Sales Books in the counting house are written up. After that the copies are numbered and filed away in the order of the Sales Book entries. To detect any errors

or omissions made in the invoicing all calculations are extended anew, but this time in the department entering books. The latter are then checked off by names and totals with the items in the department columns of the Sales Books, the slips for any missing items being hunted up. This checking procedure is important. If it were not carried through carefully, goods could easily be dispatched without the charges for them reaching the customers' accounts. In order to facilitate the work of checking, the departments should be required to use different entering books on successive days.

THE HANDLING OF GOODS RETURNED. If a customer returns goods that he had ordered, the warehouse may refuse to take them back, and the customer has no legal right to insist on their return, provided the order was correctly executed. Warehouse proprietors, however, quite frequently waive their legal right to refuse. They would refuse, nevertheless, if the goods were special ones that could not be easily sold elsewhere, or if they were goods the customer had kept in stock before sending them back, or where the parcel was a large one and its return an abuse of the accommodation that the warehouse people were accustomed to extend to customers in respect of returns.

A separate receiving room should be set aside for goods returned by customers, to keep the returns apart from manufacturers' supplies; and the special room should be manned by capable assistants. It will be their duty to deal with each case carefully in conjunction with the department to which the goods relate. It may be necessary to enter into correspondence inquiring the reason for return, or explaining why acceptance of the returns must be refused. Where the returns are taken back it will be necessary to make sure they were not sent out at first, through some oversight, without being invoiced, and to see that the value the customer claims is the same as that at which the charge to him was made. It will be necessary, again, to inspect the goods closely to ascertain if they are still in salable condition. Should they be such as can be taken back they will be handed to the department to go into stock again. A returns entry will be made for a credit note to be sent to the customer. From the carbon copy of that note, kept for filing, there will be passed, through a Returns Inwards Book in the counting house, a credit to the customer's account in the Ledger.

QUESTIONS

1. Explain in what form you would keep copies of orders given out in a wholesale warehouse for supplies of goods. How would you cause these order records to show whether delivery of the goods had, or had not yet, been received ?

2. Outline a method you can recommend for keeping account of buyers' commitments, so that the value of goods on order and still to come in for any department shall be readily ascertainable at any time.

3. What benefits will a reliable record of a buyer's commitments yield ? In what form would you have a monthly report of such commitments drawn up ?

4. If you were the head of a selling department of a wholesale business, what arrangements would you make about responsibility (1) for stocks being kept in good order, and (2) for attention being drawn to the need for renewal when the stock of an article was running low ?

5. Outline your ideas upon the routine in a warehouse of receiving and dealing with the travellers and agents of suppliers of goods.

6. Where a wholesale house imports goods from manufacturers abroad, what special steps must be taken to get possession of the goods after their arrival in port here ?

7. State your views about the routine of supervising the travelling salesmen of a wholesale business, so as to keep a watchful eye on the volume of business they bring in.

8. If you were required to furnish a continuous record of the value of orders executed on each of several travellers' grounds, what arrangements would you make for the compilation of the records ?

9. Explain how you would set about the keeping of a record to show month by month, and year by year, the value of orders executed for individual customers. Of what use would such records be ?

10. What suggestions can you make for the recording and filing of orders received, so that you will be able to ascertain at any time (1) which of the orders have been executed, (2) which are still on hand unexecuted, and (3) what goods exactly any particular order, previously executed, was for ?

11. Name some points that occur to you that must be carefully watched in the execution of orders from stock, if mistakes in execution and consequent complaints from customers are to be prevented.

12. Explain a workable routine for (1) the entering out in a wholesale warehouse of goods to be dispatched to customers, (2) the sending of invoices for the goods, (3) the carrying of the charges to the customers' accounts, and (4) the checking of the procedure throughout for detection and correction of mistakes.

13. What points call for special attention in a departmental warehouse in the handling of goods that customers have sent back ?

CHAPTER VIII

ROUTINE IN THE SHOP

IN the shop, even more than in the warehouse, the stock in the fixtures must be kept trim and tidy. In the shop, too, as well as in the warehouse, copies should be kept of orders given out—unless the orders are given for immediate delivery. But in the small shop the orders will be for much smaller quantities ; and the proprietor, being himself in close touch with his affairs, will scarcely find it necessary to have formal reports of his commitments periodically prepared. One difference between shop and warehouse is that the seasons of busiest trade are later in the retail than in the wholesale. For the rest, differences in routine are mostly due to two differences in conditions—(1) that the average retail sale is much smaller than the average of the wholesale, (2) that sales in the retail are not usually made on credit, but for ready cash.

HINTS ON THE KEEPING OF STOCKS. Where the business is large enough for reserve stocks to be held whole packages only should be kept in the reserve. Whenever it is necessary to bring forward a new supply into the shop, the whole of the package broken into should, where possible, be taken. That simplifies the recording of quantities in the reserve stocks, and it saves labour and attention in keeping them clean and straight. The articles taken into the shop should, of course, be placed on the shelves or fixtures in the manner most suitable for the quick serving of customers. If, at the same time, they are so arranged as to catch the customer's eye, then mere arrangement will serve as an effective but costless advertisement of the goods. Displayed so as to attract customers' attention, they will lead the customers to ask about the articles, and to buy them without having come with that intention. In business the difference between success and failure very often arises from appreciation of the value of little things like these.

In the reserve stocks, and in the shop stocks as a rule, one kind of article should always be found in one place. To keep the same kind of goods in more than one place leads to portions of stock being overlooked, and to new supplies being ordered up before they are

required. If that is done frequently with several kinds of goods it means that the struggling shopkeeper is loading his business with more stock than is necessary for the turnover he is doing—that portions of his limited capital are kept lying idle, when they could be earning profit by being put into goods of other kinds, which through his inefficient methods the shopkeeper has been unable to buy. Further, overstocking of goods and overlooking of stocks lead to deterioration and to waste. For a similar reason the older portions of stocks should always be brought forward first, and offered first for sale. Goods kept too long lose their freshness, become damp or dry or soiled, and have to be disposed of at a loss. They may even have to be thrown away, for it is foolish policy for a tradesman to sell goods in a condition that will displease the buyer. By such shortsightedness customers are lost to competitors who are better able to view the effect of their dealings from the customer's side.

In efficiently controlled businesses nowadays it is generally recognized that stocks have to be scrutinized frequently, and not only at six-monthly stocktaking times. Stocks of foodstuffs must be watched more closely than those of less perishable goods. Dealers in foodstuffs, however, have a fairly constant weekly demand. For the double purpose, therefore, of watching what goods are on hand and of deciding what new supplies to procure, a weekly stocktaking is useful in such trades. The work can be got through quickly, if reserves are all kept in whole packages, and if the packages are legibly marked with the weight of contents, when they come in. Where contents are to be counted by number, and not by weight, the size of each package will usually be sufficient to indicate what quantity is inside. Drawers or boxes or tins, in which loose weighable stock is kept in the shop, may be marked with their *tare* weights. When taking stock containers and contents can then be weighed quickly together, and the net weights be easily ascertained. As it is customary in these days for grocery goods to be made up beforehand in small weighed packets, stock can now be taken with very much less trouble than used to be entailed.

BRANCHES AND THEIR SUPPLIES. It was stated in Chapter VI that the branch of the multi-shop business had its supplies charged to it at selling prices. A numbered invoice would be sent from head office for every lot of supplies delivered to the branch, and the

invoice would be priced and extended at selling figures. The carbon copies of the invoices sent to branches would be kept at head office, those of each branch in a separate file or binder. These copies would have extra columns to show, in addition to selling prices, the rates and extensions at cost or warehouse price; and the invoices to each branch would be summarized by week or month. In the head office books the branch would, of course, be charged with its supplies at warehouse price. A Trading Account for each branch could then be prepared periodically to show the gross profit actually made on the sales of the branch. And a Profit and Loss Account would show how much was left as net profit, or what final loss resulted, after all the expenses of the period were taken into account.

For the branch manager, however, a weekly or monthly Trading Account would be prepared showing all invoices at selling price, as in the example shown below. On the date of that account the stock on hand at Branch 23 should come to £664 12s. 7d. at selling price. If stock were taken and found to differ materially from that amount the cause of the difference would be investigated. At the end of a week's or a month's trading it would be much easier to clear up a difference in stock than it would be if a year or a half-year had elapsed since a similar test was made.

BRANCH 23—MANAGER'S TRADING ACCOUNT

WEEK ENDED 25th February, 19..											
	£	s.	d.		£	s.	d.	£	s.	d.	
Stock, 18th February .	693	2	9		Returns, etc.						
Invoices received :					No. 67 .	4	15	11			
	£	s.	d.		68 .	6	2	2			
No. 282	15	2	10						10	18	1
3	39	2	6		Sales :						
4	191	5	1		Feb. 20 .	26	9	8			
5	28	9	10		21 .	39	11	6			
				274	0	3					
					22 .	14	0	10			
					23 .	38	14	—			
					24 .	57	11	1			
					25 .	115	5	3			
									291	12	4
					Stock, 25th February				664	12	7
									£967	3	0

HANDLING THE DAILY TAKINGS. 1. The Use of Counter Check-books. The method which is most in favour in the retail trade for dealing

The checks that have been taken should first be separated according to the numbers of the books from which they have been made out. Then those from each book should be arranged in the order of the check numbers, and should be entered in consecutive order on the summary sheet. Listing them so will cause a blank to appear whenever a check is missing, and the missing check should be inquired for by the cash clerk without delay. That will prevent assistants in the shop from intentionally or unintentionally destroying or holding back any check or cash. When listing the amounts care must be exercised to see that the summary for any day begins with the No. in each book that immediately follows the last of the day before.

In a big store the same check book is not likely to be used for credit sales and for cash ; but, where it is so used, the amount column in the summary sheet must be divided for each book into two columns, one for cash and one for credit sales. Whether credit checks appear on the same or on separate summary sheets, their full daily total should agree with the daily total of entries made for credit sales in the Credit Sales Book.

3. The Banking of Total Takings. Each summary, completed for a day or part of a day, passes to the office of the chief cashier. Along with it the cash clerk hands in to the cashier the whole of the cash she has taken since her last summary was made ; and the cash that she hands in should agree with the total that the summary shows. As each cash clerk holds a small amount of cash permanently in hand, she is never without money in her till out of which change to customers can be given.

When the chief cashier has got all the summaries of the cash clerks listed and added, he arrives at a figure which should agree, again, with the total of all the money handed in. If he finds that it does agree he makes out in duplicate a bank paying-in slip to correspond with the total cash he has received. It should be a rule enforced without exception that the *whole* of the takings be paid into the bank. When the cashier is required to pay sums away the demands must be met out of a float of sufficient size held by the cashier. Periodically his payments must be refunded to him by cheque so that his balance in hand is restored to its original amount. That system prevents irregularities occurring in the cash.

One copy of the bank paying-in slip, completed by the cashier,

he leaves at the bank counter together with the sum he pays in there; the other copy he brings back stamped and initialed by the bank counter clerk. In due time an entry of the amount appears in the bank pass book, and is checked off with a similar entry made in his Cash Book by the chief cashier of the business. The Cash Book entry is extended into a Cash Sales column, the total of which for each month is posted from the Cash Book into the Ledger to credit of Sales Account.

4. The Checking of Summaries and Duplicates. In order to detect or prevent dishonesty it is necessary that all the summary sheets should be carefully checked with the duplicates of customers' bills, to see that no duplicate is missing. It is not enough, however, to be satisfied that all the checks used have been accounted for. It is also necessary to scrutinize every check to see that the amount shown thereon has not been tampered with by either shop assistant or cash clerk. Suspicious alterations and manipulations of figures should, therefore, be looked for on the duplicates, and they should be reported immediately they are found. Where the assistants are allowed to take the customers' money to the cash desk it is possible for a dishonest salesman to make the customers' bills show larger amounts than the duplicates do. But even the most careful checking of duplicates will not discover when a sale has been made without a bill having been given for it. With the view of preventing such practices as these, it is required in some establishments that each check and carbon duplicate be initialed by a supervisor on the floor in which the sale takes place.

It will be found, in a busy store, that the adding machine is a very useful help in the totalling of the checks that come from the cash desks. Besides being tedious, the checking is a kind of work that must be got through day by day, and must not fall behind. Sometimes the salesmen and saleswomen keep, for commission purposes, summaries of their own fastened inside the covers of their check books. If the assistants' summaries are to be checked with the desk summaries it will be advisable that each assistant shall have two books running, for use on alternate days. It is advisable that check books be changed each day for another reason—so that the checkers can inspect the books to see that the last checks used are always accounted for at the time, and are not held back to a later day. The commission, which usually makes up a considerable part

of a selling assistant's pay, is calculated week by week on the total of the assistant's sales that his or her checks record.

5. When a Cash Register is Used. Cash registers are now so commonly used by shopkeepers that every reader will be familiar with their outward appearance, at least. The purpose of the cash desk, surrounded by its casing of wood and glass, is to provide a place and means for keeping, in safety and by themselves, all cash and all check duplicates for sales. The cash register dispenses entirely with cash desk, cash clerk, counter check books, duplicates of bills, and summary sheets. It seeks security and control by other methods. The recording type of mechanical cash till, which we call a "cash register," prints the amount of each sale on a roll of paper locked inside the machine. It also adds the roll as each sale is recorded, so that the total is ready for the proprietor, when he unlocks the register at the close of the day, after the last sale has been made.

When a cash register is used the selling assistants put the money into the till of the register themselves, and give the change. But access to the cash cannot be obtained secretly, for the opening of the till causes a bell to ring, attracting the attention of others in the shop. The record is printed on the roll inside by the assistant pressing down, on the machine, keys that correspond to the amount of cash taken ; and the same operation of depressing the keys causes the amount to be displayed, to the customer and to others around, in a small window on the top of the register. The publicity of the bell and the window, and the inaccessibility of the record roll, are designed for the prevention of theft. Should the till be opened without the amount being displayed, a blank on the record roll will tell the tale. Were money taken for a sale and not placed in the register, there would be no ringing of the bell, and that would probably be noticed by other assistants in that part of the shop. Where receipts are to be given to customers, this system of handling cash provides for the machine itself giving the receipts, in the form of a printed slip showing a copy of the entry on the record roll.

The larger kind of cash register contains a separate cash till for each of several assistants, and makes a separate record and addition for each till. In that way there is placed upon the assistant the responsibility for the accuracy of his or her own cash takings. In others of the registers separate records can be made for cash sales,

cash paid out, and payments received of accounts. It is rather a weakness of this cash-register system that it places the taking of cash and the giving of change wholly in the hands of the assistants that sell the goods. Another deficiency is that the register cannot furnish, as the check-book system does, detailed particulars of the goods that have been sold. On the other hand, the adding and recording mechanism saves clerical labour in totalling and checking the sums received. Machinery is made use of to accomplish, in less time and at lower cost, what human head and hand could only do with greater effort, and with greater chances of error creeping in. •

PAYMENTS RECEIVED FOR ACCOUNTS. In a business where credit is given the cash received in payment or part payment of accounts must be recorded separately from cash received for sales. In smaller shops money for accounts may be taken at the same cash office as money for sales ; but in a big store there will be a separate office at which accounts should be paid. Every sum received for a cash sale has the carbon duplicate of the sale check to record it, or the printed entry on the record roll to register it. For each amount received for a credit account some similar record should be made ; and in this, as in the other cases, the record should be one that is incidental to the routine of receiving the cash. The fact of the record being part of the routine prevents the making of the record being forgotten. And it is very necessary that the name, amount, and other particulars should not be forgotten when payment of an account is received.

The person who pays an account always expects a receipt of some kind for the money ; and no shop, except one conducted in the loosest manner, would take payment of an account without giving a receipt in exchange. If the form of receipt provided is such that a copy of it must be kept, then the copy is a record of the payment that cannot be forgotten or overlooked. In these circumstances the cashier will never have trouble in balancing his cash, by reason of a sum received having been omitted to be entered in his Cash Book ; and no customer will ever be annoyed by receiving a statement for an account that he has previously paid. A bound book of perforated receipt forms is all that is required ; but the rule must be enforced that a receipt is never to be given except from the Receipt Book, and the writing of a receipt on statement or invoice without

using a receipt form must never be allowed. The necessary copy is secured as a counterfoil or carbon duplicate left in the book for every receipt torn out. Only one writing is needed for receipt and copy in the carbon method ; the counterfoil method needs two.

When it is properly designed, a receipt book of this kind can be made to serve as a subsidiary cash book. Only each day's total of receipts given need then be copied into a General Cash Book, and not all the separate names of payers and amounts received. But, to fit conveniently into that scheme, the receipt form used should be a shallow one.

B1234 RECEIVED		19...
FROM M.....		
TOWN.....		
FOR BROWN, DOBBS & GIBSON, LTD.		
£	:	:

Some ten or so receipt forms can then be accommodated one below another on a leaf of ordinary depth. The form shown above is so arranged that carbon copies of the receipts will be made on the leaf underneath. As the amounts will appear on the underleaf in single column, and without writing or printing between them, they can be easily added to find the total of each page and the total for each day. The underleaf will, however, be wider than the receipt forms, the extra width taking two extra money columns—one for discount, and one for the cash and the discount added together for each payment, as illustrated on page 93. It will be the amounts in this last column that will be posted to credit of the customers' accounts ; and, in the folio column of the Receipts Book, the reference to the Ledger Account will be inserted against each amount, when it is posted.

HOW TO RECORD ADVERTISEMENTS. On page 94 we submit a ruling for a loose-leaf record of advertisements. This ruling is intended to show (1) the day of the month on which each advertisement appeared, (2) the space the advertisement occupied, (3)

CARBON DUPLICATE RECEIPT BOOK

(Specimen of underleaf)

CASH £ s. d.		DISCOUNT ALLOWED	Fo.	TOTAL POSTED
384 11 6	Brought forward .	7 14 2		392 5 8
	B1231 3rd March, 19..			
	George Whitehead & Son,			
	Wolverhampton			
30 17 -	W. G. Hill	- 15 6	125	31 12 6
	B1232 3rd March, 19..			
	Brooks and Dickinson,			
	Newcastle-on-Tyne			
100 - -	On account W. G. Hill	- - -	64	100 - -
	B1233			
	B1234			
	B1235			
	Carried Forward .			

the cost of each insertion, (4) the total cost month by month for each publication used. Date and space columns in the ruling are filled in from inspection of the advertisement in the voucher copy of the paper that the publisher supplies. The cost column is written up from the advertising agent's monthly account of charges. Date, size of insertion, matter and cost are, of course, all checked with the order given or the running contract made for space. The first six months of the year appear on the front page of each loose leaf, the second six months on the back. These records should be kept in their binder in strict alphabetical order, according to the name of publication. If that is done the trouble of writing up an index to the book will be obviated, and reference to the record for any publication will be as easy as looking up a word in the dictionary. In the planning of clerical routine much time and cost can be saved by due attention to considerations of form and method such as these.

For the advertising of an ordinary retail store the keying of advertisements is not much used, the answers to the advertisements being the calls that readers personally make at the store. In mail order business, on the other hand, the replies come in by post; and the key No., if it is used at all, appears in the address on the envelope. The envelopes received are, therefore, sorted out each week so as to bring together all those that bear the same key. The total of each key No. is then recorded in a book kept for recording replies, and the total number for each month is divided into the advertisement cost for the month. That does not give the actual cost per reply or order, because (1) letters come to hand in answer to advertisements without the key No. being used, and (2) more than one letter with key No. may be received from the same person about the same order. The dividing of the monthly cost by the number of traced replies does, however, give a basis on which one can consistently compare (1) the results from the same paper month by month and year by year, (2) the results from any paper with those from any other paper, period by period.

If the advertisements are cut from the voucher copies, and are preserved in covers week by week, quick and easy reference can be made to them, when one desires to see what was the form of any advertisement, or what matter it contained.

QUESTIONS

1. Make suggestions for efficient methods of arranging and keeping stocks of goods in a retail shop, and explain how your suggestions would help towards efficiency.

2. How often do you think stock should be taken in a retail shop, and why would you take stock so seldom or so often? How would your views be affected by a comparison of conditions in the retail drapery trade and the retail grocery and provision trade?

3. State what your ideas are about the supervision of branch supplies and stocks in a multiple-shop concern, with the objects of (a) keeping check on leakage and waste, (b) controlling the quantity of stock held.

4. Explain the working of the check-book system of recording cash sales in a retail shop or store. Name what you consider to be some of its advantages and some of its drawbacks.

5. Detail the procedure you would adopt in a large store for summarizing the sale checks. How would you arrive at the daily total of cash sales for each of the departments, and for the business as a whole?

6. If you were the proprietor of a large retail business, what rules would you impose upon your cashier in regard to the banking of the takings, and to the paying out in coin or notes of carriage charges, travelling fares, and other small expenses?

7. Name several points that need to be specially watched in the checking of summaries of shop sale-duplicates in the retail trade. Explain why it is needful to watch these points.

8. What is a "cash register"? What in your view are its advantages or its disadvantages when it is compared with any other method of attaining the objects for which it is used?

9. Describe in detail the routine you would follow in the receiving of money in payment of accounts, and in the recording of the sums received.

10. What benefits does the use of a receipt book give for sums received in payment of credit accounts? Sketch the form of receipt book you consider to be the most efficient for the purpose.

11. What is meant by saying that an advertisement is "keyed"? Of what benefit is the key, and how would you realize the benefits it can be made to yield?

12. What form would you recommend for keeping record, in a busy retail store, of advertisements that had appeared in newspapers and other periodicals? What details would you cause your records to show?

CHAPTER IX

WHEN GOODS ARE RECEIVED AND DISPATCHED

BUSINESS men nearly always have a due appreciation of the need for handling with every care receipts and payments of money. Many of them, however, are content to treat with considerable laxity the receipt and dispatch of goods. They fail to realize fully that the goods a business buys and sells embody value quite as much as the money that a business takes and pays away. They forget that want of care in receiving and dispatching its goods causes loss of value to the business equally with want of care in the handling of its cash.

A RECORD OF GOODS RECEIVED. In wholesale business, also in the retail unless the business is a small one, it will be necessary to make some record of all the goods received. The record will be kept in the Goods Receiving Room, and will be made as each package or consignment of packages is delivered by the carriers. A Goods Received Book should contain, for each lot of goods that comes to hand, some or all of the particulars shown in the form given below. Forms of entry like the specimen shown would be printed throughout the book, several on a page, so that the receiving clerk would only have the blanks to fill in. For so many particulars, varying in extent with each entry, a form like this is more suitable than a columnar one.

SPECIMEN FORM OF ENTRY IN GOODS RECEIVED BOOK

No. of Entry.....Carrier.....Date.....
From what town.....Senders.....
Number and kind of packages, and marks.....
.....
Weight.....Carriage paid or to pay ?.....
Nature of contents.....
For what department.....
Invoice date.....Amount £.....
Signature of department.....

The receiving room should not part with any goods to departments until it has seen an invoice corresponding to the goods. It should then mark on the invoice the No. of the relative entry in the Goods Received Book ; and in that book it should fill in the date and amount of the invoice it has seen. These markings serve to identify invoice and entry, and to link them in such manner that any

SPECIMEN OF HOME MANUFACTURER'S INVOICE

Factories at
NORWICH

1155 WOOD STREET,

LONDON, E.C.2.

MESSRS BROWN, DOBBS & GIBSON, LTD.

CRIPPLEGATE SQUARE, E.C.2.

19th March, 19..

Bought of

GARNETT & Co., Ltd.
HOSIERY MANUFACTURERS

TERMS : $2\frac{1}{2}$ per cent, 30 days ; 3 per cent prompt.

27 $\frac{3}{4}$ dozen Silk Hose, as below—

No. 413,

	$8\frac{1}{2}"$	9"	$9\frac{1}{2}"$	10"	
<i>Grey rosita</i>	$\frac{1}{2}$	$\frac{3}{4}$	2	$\frac{3}{4}$	
<i>New beaver</i>	$\frac{1}{2}$	1	$1\frac{3}{4}$	1	
<i>Blue fox</i>	$\frac{1}{2}$	1	2	$2\frac{3}{4}$	
<i>Sable</i>	$\frac{1}{2}$	1	$1\frac{3}{4}$	1	
<i>Gunmetal</i>	$\frac{1}{2}$	1	2	1	
<i>Circassian</i>	$\frac{1}{2}$	1	2	1	<i>at 41s. £56 17s. 9d.</i>

Sent from factory in case H1134.

invoice passed and filed away can be quickly traced from the entry. or the entry from the invoice. A signature for the department taking the goods should also be obtained at the time the goods are handed over. Once in a while some question will arise that a book like this will settle ; for example, when an invoice has been lost before it is finally passed, and a copy has been obtained to be checked and passed in its place. Besides, the information recorded in this book will be very helpful in the checking of monthly accounts for carriage inwards.

TAKING DELIVERY OF GOODS. On taking delivery of goods the

buyer and the receiving clerk together must watch that carriage is not being charged on packages that should arrive carriage paid. When that does happen the matter should be taken up with the railway company, or with the sender of the goods, or with both. Also, in checking the carriage accounts, the person responsible should

SPECIMEN OF A WHOLESALE GROCERY INVOICE

IDOL LANE,
LONDON, E.C.3.

14th February, 19..

THE BELMONT CAFÉS,
BRIGHTON

Sold by

HENRY BLANDFORD & SONS, Ltd.

WHOLESALE DEALERS IN RICE, SUGAR AND TINNED FRUITS

	£	s.	d.
20 bags <i>Gran., Tate London, 1 cwt. each at 28s. 10½d.</i>	28	17	6
10 „ <i>Caster, Tate R., 2 „ „ 33s.</i>	33	-	-
	£61	17	6

TERMS : *14 days net. Carriage forward.*

All the goods specified and included in this invoice are hereby warranted pure and of the nature, substance and quality herein described, within the meaning of the Sale of Food and Drugs Act, 1875, and of all other statutory requirements or regulations relating to the sale of food, including the Public Health (Preservatives, etc., in Food) Regulations, 1925.

HENRY BLANDFORD & SONS, LTD.

see that the charges are not made at higher rates than those applicable to the particular classes of goods and to the conditions (e.g. owner's or company's risk) under which they have been carried. Where goods are being received every day in quantities the railways or other carriers will agree to the charges being sent in on monthly accounts, instead of each single charge being collected when delivery is made.

The receiver of the goods must look each package over to satisfy himself that it is in apparently sound condition when delivery is offered. If the condition of the package looks doubtful the receiver should not give an unqualified signature for the goods ; but should add to his signature some qualifying phrase, such as " wrapper torn," " case broken," " package damp," or " contents soiled." A signature in that form will support a claim to be made against the carrier after the extent of the damage has been definitely ascertained. Goods damaged when coming by sea cannot, however, be dealt with in quite the same way, as a shipowner's liability is not the same as that of a carrier by land. But goods carried by sea are usually insured on behalf of either the consignor or the consignee ; and then claim must be made on the company or the underwriters with whom the goods are insured. Where the goods are transported free to destination by one of the continental carrying agencies, a slip, attached to the invoice or the delivery note, will probably say that claims must be notified at the destination to an insurance surveyor whose name and address are given.

A REGISTER OF INCOMING INVOICES. Invoices coming in from suppliers of goods may be passed on at once to the departments buying the goods, or to the receiving dock. But, if that is done, there will be no means of discovering afterwards what invoices have failed to complete the journey to the clerks in the Bought Ledger Office. Sometimes invoices go astray accidentally before they reach that office, and sometimes buyers hold them back purposely for reasons of their own. It is customary, therefore, for inward invoices to go to the Bought Ledger Office first, and there to be numbered and listed before they are handed to the goods receiving clerk.

The lists are made out in duplicate by carbon leaf, one of the copies going with the invoices it lists. The other copy remains in the Bought Ledger Department. It forms a register of invoices received but not yet passed ; and, as the invoices come back passed from the department buyers, they are marked off in the Bought Ledger list. Once a week all stragglers should be called in and re-listed ; for, were that not done, old invoices outstanding would be lost sight of entirely. The passing of those laggards should be insisted upon, unless the goods have not been received, or unless for some other sufficient reason an invoice cannot be passed. In

SPECIMEN OF A FOREIGN MANUFACTURER'S
INVOICE

TISSAGES D'AMEUBLEMENT MODERNE S.A.

SIÈGE SOCIAL—GAND, BELGIQUE

GAND, le 20 Février, 19..

MESSRS. BROWN, DOBBS & GIBSON, Ltd.
LONDRESDOIT pour vente et livraison du suivant, expédié aux risques et
périls de l'acheteur par... *La General Steam Navigation Co.*...
payable en espèces à Gand.

2 Ballots marqués B.D.G. 261/262.

261 8 pcs. Ameublement

120 cm.

72·0 68·0

70·3 68·0

70·0 70·0

70·9 70·0 559·2

262 6 pcs. Ameublement

120 cm.

69·2 68·0

70·0 68·4

68·4 70·0 414·0

—	Fcs.	Fcs.
973·2 à 13·50	13,138·20	
==	Belgas	2,627·64

Escompte de 2½% comptant

Exempt de la taxe de transmission.

such cases the causes of delay should be cleared up by the persons responsible as soon as that can be done.

THE PASSING OF INVOICES RECEIVED. It has already been mentioned, in Chapter VII, that each delivery of goods received should, when the invoice is passed, be recorded on the buyer's copy of the order or contract he gave. By him or by his assistants each invoice should also be checked to make sure (1) that the quantity charged corresponds with the quantity received and ordered, (2) that the prices charged are the correct prices for the qualities received. The buyer or his deputy should then pass the invoice by signing it, so giving authority for payment to be made when the time for that arrives. All the calculations must be checked as well. For adding long lists of quantities, or for working out extensions, a calculating machine will be found helpful again. To provide for this checking routine being carried through step by step methodically, inward invoices are usually marked with an imprint of a rubber stamp like

DEPT No.	Receiving dock No.....
	Goods checked by.....
	Prices ,, ,,
	Order marked ,,
	Calculations ,,
	Buyer's initials

the specimen shown on this page. The blanks must be filled in at each stage with the initials or other particulars required. The stamping of the invoices should be done when they are registered before they are sent to the Goods Receiving Room.

At the time of checking drapery goods and hardware with the suppliers' invoices, the goods should be marked by the retailer with their cost and selling prices, the cost in cipher and the selling price in plain figures. Cost prices are required for stocktaking purposes; and markings on tickets or boxes are often the most convenient form in which to keep record of these prices. Where, as with goods of these kinds, a large variety of articles is usually stocked, the selling assistants must have a ready means of ascertaining the selling price. For that purpose, too, the price on the ticket is the quickest and the surest way.

DEBIT NOTES AND THEIR USES. Before they are put into stock the goods received must be examined carefully to ascertain if all are free from defect. When any articles are found to be defective they should be returned to the supplier, and their value should be charged back. As an alternative, all the goods may be kept, subject to an agreed allowance being obtained in respect of the defect. The claiming of the allowance, or the charging back of the returns, is done by "debit note." An example of that document is given on this page. Should any goods received have been overcharged, either

SPECIMEN OF A DEBIT NOTE

CRIPPLEGATE SQUARE,
LONDON, E.C.2.

21st March, 19..

MESSRS GARNETT & Co., Ltd.

1155 WOOD STREET, E.C.2

DEBITED BY

BROWN, DOBBS & GIBSON, Ltd.

Error in your invoice 19th March—

2½ Blue fox, size 10", charged

1½ only received

1¼ charged in excess...

at 41s. £2 11s. 3d.

by invoicing more than were delivered, or by invoicing the right quantity at too high a price, the overcharge must also be claimed by debit note. One copy of every debit note is posted to the supplier of the goods. Another copy is kept, and from that an entry finds its way through the Purchases Journal, to the debit side of the supplier's account in the Creditors Ledger.

THE CHECKING OF PACKAGES GOING OUT. Reference was made in Chapter VII to the need, in the wholesale warehouse, of passing to the packing room particulars of each lot of goods sent down for dispatch. The particulars are required to enable packers to check the quantities actually sent off, and the packer should place on each

slip his initials or his staff number. The slip may contain a full copy of the department entry for the goods, or it may show only particulars sufficient for the purpose of checking the quantities that are packed. There are several reasons why the quantities should be watched at this last stage in the execution of customers' orders. One reason is the need for preventing or detecting pilferage on the sender's own premises. Another is the advisability of keeping some check on the claims that customers will make, rightly or wrongly, for shortage in delivery—rightly sometimes for undiscovered lapses on the sender's own part, wrongly at other times by mistake on the customer's side. A third reason is to save one's customers, wherever possible, the annoyance of having to complain of incorrect deliveries, some of which may happen through one person's goods being put into another person's parcel during the packing process.

No business can be successful unless it gives satisfaction by its goods and service. It is a vital matter, therefore, that customers shall be pleased. At the very least they should not be given occasion for displeasure, by negligence in any particular in the execution of their orders. Care must be extended even to the writing of the label of a package, so that the goods shall be delivered to the right address, and without delay. With the same end in view the trader should see that packing is done in such a way that none of the contents of a package shall damage other of the contents in transit. Wrappers and cases must also be strong enough to withstand rough handling, and to protect the goods from damage from outside. The customer may state by which route or carrier he wants his goods to come. If he does that, his instructions should be observed ; if not, the sender should select the most suitable, rather than the least suitable, route or means of conveyance. In small shops, where selling and dispatch are not separate duties, these considerations will not be so important ; but in the large retail store they will call for almost as great attention as they do in the wholesaler's warehouse.

KEEPING RECORD OF DISPATCH. For every package to be carried by goods train the railway companies require a completed consignment note. As the railways supply their own consignment forms free in books, all the sender has to do is to fill up the blanks with the particulars required.

The particulars are these—

1. Date of dispatch of goods.
2. Sender's name and address.
3. Station to which the packages are consigned.
4. Consignee's name and address.
5. Number of packages.
6. Kind of packages, any distinctive marks placed upon them, and kind of goods they contain.
7. What the packages weigh.
8. Who pays carriage, sender or consignee.

The consignment note is the basis of the contract between sender and carrier for the conveyance of the goods, and it has printed upon it the chief conditions under which the railway company agrees to carry the packages. When parcels are being sent by passenger train, or by carriers like Sutton or Carter Paterson, the consignment note is not used, and a list of the parcels offered takes its place. In all circumstances the signature of the receiving carman or parcels clerk must be obtained, to be produced when it is necessary to prove the acceptance of a parcel that has gone astray. Carriage on parcels handed to the railways for conveyance by passenger train must be paid by the sender at the time. On those handed to other carriers and on all packages for goods train the charges may be paid by either sender or consignee, and they may be collected on monthly account. Whether the goods should be sent carriage paid or carriage forward depends upon the custom in the particular trade, or upon the special terms agreed to between the seller and the buyer.

Carbon copies of consignment notes, and of the sheets on which parcels have been listed, will be sufficient record in most businesses of the dispatch of goods, notes and sheets being always signed by the receiving carrier's man. If, as suggested in Chapter VII, the record kept of orders executed provides for a note of the mode or route of transit of each parcel, reference can be made quickly from the order record to the consignment note or parcels sheet. Occasion arises now and again for such reference to be made. Clerical work is not a service for which a trader's customers pay, nor one on which the trader makes any profit. On the contrary it is an expense that the trader must meet out of the profit on his sales—an expense that, for the sake of economy, the trader should cut down to the minimum compatible with efficiency. Duplication and re-duplication of written records are, therefore, inadvisable, wherever they can satisfactorily be dispensed with. When the big retail store

delivers most of its parcels by its own vans, the delivery sheets, signed by the customers on receipt of the goods, and filed away in order of delivery area and date, form an excellent record of dispatch.

THE INVOICE TO THE CUSTOMER. An invoice is a formal note, written or typed, showing quantity, description, price per unit,

SPECIMEN OF WHOLESALE DRAPERY INVOICE

Telephone : Wallside 5522
Telegrams : Brod Gibbs Cent London

CRIPPLEGATE SQUARE,
LONDON, E.C.2.

18th February, 19..

WILSON'S DRAPERY STORES
MELCOMBE ROAD, WEYMOUTH.

BOUGHT OF

BROWN, DOBBS & GIBSON, Ltd.

DRAPERY WAREHOUSEMEN

TERMS : 3½ per cent, 1st to 10th first following month
2½ per cent, " " third " "

			£	s.	d.
4	pieces Fancy Lawn, 40½, 40, 39, 36 = 155½	10½	6	12	10
2	pieces Cream Winceyette				
2	" Sky " 4/41 = 164	9½	6	15	-
1	piece Dice Damask, 36	16½	2	10	3
3	pieces Cretonne, 30, 30, 27 = 87	9½	3	7	1
2	pieces Bordered Casement, 59½, 59 = 118½	16½	8	7	-
			£27 12 2		
G.W.R. goods train. Carriage paid.					

and total charge for goods supplied, or showing similar particulars of work done or of services rendered. The invoice is sent by the seller to the buyer usually on dispatch of the goods or on completion of the work. Specimens of wholesale traders' invoices are shown on this page and the next. In some trades there is sent with the goods a *delivery note*, which gives quantities and description only, an invoice to show the prices charged and the total value following

usually in a day or two. But, where the customer needs the invoice for the pricing of goods before they go into stock, it should be posted to reach him as soon as the goods arrive.

We have explained previously that invoices are commonly typed in duplicate by carbon leaf, that the top copies are sent to the customers who have bought the goods, and that the carbon copies are kept to serve as the basis of the sales entries in the account

SPECIMEN INVOICE OF WHOLESALE CHINA TRADE

LONDON,

21st April, 19..

BELMONT CAFÉS,

BRIGHTON

INVOICE FROM

SOLOMON AND FRANKS

80 & 81 DUKE STREET, OXFORD STREET, W.1

		s. d.	£	s.	d.
20	dozen Cereal Dishes, 5 in. Hotel Soups	7 6	7	10	—
10	„ Bakers 3 in. Gem . . .	10 9	5	7	6
10	„ Jugs $\frac{1}{2}$ pint Bean . . .	13 6	6	15	0
5	„ Teapots 36's Hotel . . .	28 6	7	2	6
5	„ Plates 7 in. Hotel. . .	7 3	1	16	3
20	„ Coffees and Saucers B/H . .	8 6	8	10	—
			£37	1	3
2½ per cent 30 days					

books of the business. Each entry in the Sales Book or Sales Journal is a one-line entry, giving the invoice date, the customer's name and town, the total of the invoice, and perhaps a dissection of the total in departmental columns. Nothing more is needed in a modern Sales Journal. With the carbon copies carefully preserved and filed in proper order, any further information about the goods sent to a customer can easily be found from the copy invoice on the file. A carbon copy of a sales invoice is a mechanical facsimile that agrees in every point, not only of matter but also of form, with the invoice the customer holds. The retention of such a copy is

much to be preferred to the one-time practice of making a less reliable hand-written copy in the Sales Book itself.

If these carbon copies of outward invoices are marked, each with the page-and-line number of the Sales Book entry, they can be filed away in the order of their numbers. A copy marked 201/23 tells by its number that it is entered on page 201, line 23. The entry for one marked 202/15 is to be found on line 15 of page 202. In the ledger posting a note of the line, as well as of the page, will enable reference to be made instantly from the Ledger direct to the invoice on the file. An exactly similar procedure should be followed in regard to invoices inwards and the entries made for them in the Purchases

SPECIMEN OF A CREDIT NOTE

80 & 81 DUKE STREET, OXFORD STREET,
LONDON, W.1.

30th April, 19..

BELMONT CAFÉS,
BRIGHTON

CREDITED BY

SOLOMON AND FRANKS

*5 dozen Cereal 5 in. Hotel Soups sent in excess of
order and returned at 7s. 6d. £1 17s. 6d.*

Book. When departmental dissection of sales is not required, the ledger postings may be made direct from the invoices without their being entered in Sales or in Purchases Book. But, even then, a list of the amounts must be made, in order to arrive at the total of each day's purchases and of each day's sales.

Outward invoices may be typed in triple or even quadruple copies when additional copies are required ; for example, when one copy is needed for the agent who sold the goods, or another for the compilation of sales statistics apart from the ordinary account-book records in the counting house. Invoices for goods to be shipped abroad are usually made in sets of three copies at least. One copy is probably wanted for custom duty purposes at the port of destination. Two other copies may be sent each by different mail, to the foreign customer. As an alternative, they may be attached, each

to a first and a second copy of a bill of exchange, which is drawn for the value of the goods, and is handed to a bank here to be collected by its agents in the foreign buyer's town.

A *pro forma* invoice is a note made in the form of an invoice to supply particulars of certain goods. It is used in the case of a proposed sale to show what the charge or charges will be if an actual sale of the goods is afterwards effected, or where a trader is unwilling to send goods ordered until the customer has sent him payment for them. A *pro forma* invoice is also furnished to an agent at home or abroad, when goods are sent to him "on consignment," to be sold by him, on the owner's behalf, at the prices named in the *pro forma* invoice, or at the nearest prices he can get. It is not correct to treat a *pro forma* invoice as a record of a sale until the sale has actually been completed.

CREDITS FOR CUSTOMERS' RETURNS. When a customer returns goods to the supplier of them, and the supplier accepts them back, the credit note sent by the supplier to the customer takes the form shown on page 108. Other allowances made would be credited in the same way, and a carbon copy of every credit note given would be kept. Each copy would be filed away in order, after having been numbered with the page and line on which the credit entry was made in the Returns Inwards Book of the business. As in the case of sales postings, reference should be possible direct from the customers' ledger accounts to the copies of the credit notes on the file. When debit notes are made out to manufacturers and other suppliers, for goods sent back or allowances claimed, the debit notes should be carbon copied, and the copies should be entered, numbered, and filed in the same manner as invoices and credit notes.

QUESTIONS

1. Explain as many points as occur to you which require attention in the Goods Receiving Department of a large business, when delivery of goods is taken from the carman of a railway or steamship company.

2. Do you consider it advisable to keep any formal record of goods received; and, if so, why? What form would you suggest for such a record, and what particulars would you cause the record to show?

3. (a) If it were necessary to do so, how would you trace and identify the passed and filed invoice for certain purchases with the entry for the same goods in the Goods Received Book?

(b) An inward invoice has presumably been passed, and lost before it

could be entered in the Purchases Book and Ledger, and a copy of the invoice has been obtained from the manufacturer claiming payment. How would you satisfy yourself that the goods charged on the copy invoice had or had not been ordered and received?

4. Describe the steps you would take to keep trace of inward invoices between their being received through the post and their being finally passed by the departments that bought the goods. How would you make sure that all were eventually dealt with?

5. Outline the routine you would impose, upon all the parties concerned, for the efficient checking and passing of invoices for goods bought. How would the amount of any such invoice be passed through the business books?

6. What is a debit note, and for what purposes is it used? How would you cause the purport of a debit note to be carried effectively into the account books of a business?

7. What several precautions must be taken in the packing and dispatch of goods, and for what different reasons must these precautions be exercised?

8. (a) Describe the steps to be taken in handing over goods to railways and other carriers for conveyance to customers.

(b) Explain what record you would keep of dispatch or delivery of outward goods.

9. Supply names and an appropriate heading yourself, then write out in correct form an invoice for the following goods—

10 pieces 70 in. grey sheeting
 $2/79 \quad 3/79\frac{1}{2} \quad 4/80 \quad 1/80\frac{1}{2}$ at $15\frac{3}{4}$ d.
 10 pieces 80 in. grey sheeting
 $6/80 \quad 1/81\frac{1}{2} \quad 3/81$ at $18\frac{3}{4}$ d.

(Note—"2/79" means 2 pieces of 79 yards each.)

10. What are the purposes that an invoice serves? How would you keep record of the details that an invoice to a customer contains? How can the total charge made on an outward invoice be carried effectively into a trader's books and accounts?

11. In what respects is the retention of a carbon copy of a sales invoice better than the keeping of a hand-written copy? How can carbon copies of sales invoices be made to contribute to economy of book-keeping?

12. (a) What is meant by "*pro forma* invoice," and in what circumstances is such an invoice used?

(b) What are the purposes for which a consignment note is made, and what particulars should it contain?

13. Suppose an overcharge of $\frac{3}{4}$ d. a yard has been made in the invoicing of the 80 in. sheeting in Question 9. Show in correct form a credit note for the overcharge. In your credit note which name is that of the customer who bought the goods? How would a record of the credit be kept, and passed into the account books of the business?

CHAPTER X

HANDLING THE DOCUMENTS OF BUSINESS

IN these days of highly developed communications writing occupies a large place in business affairs. Extensive transport and postal systems have carried trading operations far outside the restricted local limits within which, in by-gone days, business was conducted in small ways and mostly by oral bargains. Letter-writing is the chief medium for carrying out transactions between persons in distant parts. The telegraph is quicker, and the telephone quicker still for question and reply. It is customary, however, even when business is arranged by these means, for the arrangements to be confirmed by written letter. Writing is also largely resorted to within each business itself. It is used there for the making of records to be consulted at future times. But it is used, also, in large establishments, for the more temporary memoranda that are incidental to the progress of daily routine work, where duties are much subdivided.

THE MAIL BAG AND ITS CONTENTS. The morning's mail bag, when emptied out on the letter-openers' table, discloses a very mixed collection of paper and penmanship. Any or all of the documents that enter into business transactions may be in the pile. Let us pass the different kinds of documents in review, as we imagine them lying there in the process of being sorted.

1. We notice first a new *Price List* sent in by a would-be supplier of goods. The prices stated in the price list are intended to remain in force for some time, so that orders given now or in the near future would be accepted at these prices. When it became necessary to alter the prices notice would be sent to regular customers, unless the price list had been issued for a season only. A list of *prices current* issued, for example, by an importer of foodstuffs, the prices of which continually change, is not for that reason intended to be the basis on which orders can be given. It is circulated, merely as an indication of the trend of prices, for the information of persons likely to be purchasers.

2. The next letter we see opened contains an *Inquiry*. It describes

certain articles that the writer of the inquiry has a need for, and it requests us to send him an *Estimate* or *Quotation* of prices for the same or similar goods. Our quotation will be an offer to supply, and its acceptance by our correspondent will complete a legally binding contract between him and ourselves. The terms of our quotation should, therefore, be clear ; and we should state exactly what goods and what quantities we offer to supply at the price. It is advisable that a pattern or sample of the goods should accompany the quotation for them. For a machine or similar article a drawing and a specification should be sent. The *Specification* would state explicitly the sizes of the different parts, their shape perhaps, and the material they are made of. An example, part specification, and part printed price list or quotation, is shown on page 113.

3. Here is an *Order* for goods we are known to stock at the prices the order names ; and that other order, which the letter sorter has just placed above the first, has come in answer to a quotation we sent out last week. To prevent misunderstanding from arising when it is too late to be removed, buyers of goods should be very careful to make their orders precise. The form of orders, the keeping record of those we give out, and the recording and handling of those that come in, have been dealt with at length in preceding chapters, and need not detain us now. That letter opened last of all is a *Confirmation of an Order*. It has come from a manufacturer in acknowledgment of an order which we gave him two days ago, for goods to be made by him and delivered to us in six to nine months' time.

4. This *Invoice* is from another manufacturer for a delivery of merchandise that we recently ordered up, as our stock of the commodity was running low. Yesterday our stock was exhausted, leaving on our hands three unexecuted orders for these goods. The orders will now be executed, as soon as the goods arrive and are formally passed into stock, as explained in Chapter IX.

5. Accompanying the invoice is a *Credit Note* for a small parcel of goods we had returned, as they were unsuitable for our trade, being of a different type from those our customers expect us to supply. This credit note will be compared with our filed copy of the *Debit Note* that we posted to the manufacturer when the goods went back. If we find that credit note agrees with debit note we shall attach the two, and leave them on the file together.

IDEAL No. 2 BRITANNIA BOILERS

FOR WATER

No.	No. of sections	Capacities		Length of boiler A ins.	Length of ashpit inside B ins.	Flanged Connections†	
		Water	Fuel			Flow outlets at top	Returns at bottom either side
		Gals.	* Cub. ft.			No. and diam. in inches	
24	4	25.0	4.00	23½	18	2-3	2-3
25	5	30.6	5.35	29½	24	2-3	2-3
26	6	36.2	6.70	35½	30	2-3	2-3
27	7	41.8	8.05	41½	36	3-3	3-3
28	8	47.4	9.40	47½	42	3-3	3-3
29	9	53.0	10.75	53½	48	3-3	3-3

No.	Heating Surface	Ratings			Prices		
		B.T.U. per hour	Direct Radiation	Lineal feet of 4-in pipe	Boiler only	Insulated galv. steel Jacket.	Stoking tools
	Sq. ft.		Sq. ft.		£ s. d.	£ s. d.	£ s. d.
24	35.5	159,000	1,100	860	26 10 -	3 15 6	1 3 -
25	45.0	200,000	1,385	1,080	32 - -	4 5 6	1 3 -
26	54.5	241,000	1,670	1,300	37 10 -	4 15 6	1 6 -
27	64.0	282,000	1,955	1,520	43 - -	5 5 6	1 6 -
28	73.5	323,000	2,240	1,740	48 10 -	5 15 6	1 6 -
29	83.0	364,000	2,525	1,960	54 - -	6 5 6	1 6 -

* Available for fuel under working conditions.

† 4-in. flanged flow and return connections can be obtained by means of a special header.

‡ Patent No. 2437/1913

No. 802 Ideal Damper Regulator £ s. d.
2 6 9

Draw-off Cocks each 5 3

Stoking Tools and Draw-off Cocks (two) supplied with each Boiler unless otherwise ordered.

When ordering Jacket, state position of flow and return tappings.

THOMAS POTTERTON (HEATING ENGINEERS) LTD.

CAVENDISH WORKS, RAVENSWOOD ROAD,

BALHAM, LONDON, S.W.12

6. Also enclosed with the invoice and the credit note we find the manufacturer's monthly *Statement of Account*. It will be checked with his account in our Creditors Ledger, with which it will probably agree. If it does so, the discount we are entitled to will be deducted, and a cheque will be drawn in settlement, to be posted to the creditor on our coming pay-day. The usual form of a statement of account is shown in Chapter XI. It does not contain particulars of the goods supplied, its purpose being merely to show what items in the customer's account are falling due for payment, and what they amount to.

7. Amongst an array of letters and documents of other kinds that our letter-opener has now turned out, is a *Debit Note* sent in by one of our customers. The customer says that we have overcharged him—that the goods overcharged were sent him in completion of an old standing order. The goods, he says, should have been invoiced by us at the old price, as his order for them was given long before the price of these goods was raised. If, on investigation, we find ourselves in the wrong, a credit and an apology will be sent to the customer at once.

8. In that basket there a number of *Cheques* has now accumulated. Most of them are pinned to the statements of account they are to pay. These are some of the numerous statements sent out by us ten days ago for all accounts, on our Debtors Ledger, that were falling due. Whether cash is received in the form of a cheque or in notes or coin, the opener should always check the amount received with that named in the letter or statement accompanying it. If cash and statement agree, he should initial the amount named ; if they do not agree, he should mark on the letter or statement the sum received, and get someone else to check him. Coin and notes should not be sent through the post except by registered letter.

Receipts, like those described in Chapter VIII, will be written for all cash received, and will be gummed to the statements they concern. If any of these payments is found on examination to be more or less than it ought to be, a letter explaining the difference will be posted with our receipt. The amount of the difference will be carried forward in the ledger account, and will be included in the next statement we send out. An insufficient amount, sent in settlement, can be retained in part payment, if a receipt is given " in

part payment " or " on account." Every receipt given for coin, notes, cheque, or acceptance, where the amount is £2 and upwards, must bear a twopenny stamp. If the stamp is an adhesive one it must be cancelled when the receipt is given. On the sorting table there is a receipted statement, sent in by one of our suppliers, for an account we have just paid to secure a special discount.

9. That peculiar document on the top of the cheques is an " acceptance," or accepted *Bill of Exchange*. The customer from whom it has come takes long credit, and he has agreed that we should draw a bill upon him monthly for the total of each month's account. The bill for his March account was drawn payable at four months from 1st April. The customer has now returned it to us, with the word " Accepted " written across it followed by his signature. We shall hold the bill until the end of July. Then we shall hand it to our bankers for them to collect the amount from our customer's bank. As the date of payment approaches he will instruct his bankers to pay the bill on its presentation to them. At least, we expect he will, and that in due course our bank will credit our account with the amount collected.

10. The opening of the morning's letters is now completed ; but before proceeding to observe how they are distributed, let us look at two share-transfer deeds that have been placed in a basket by themselves. Our business is owned by a limited company (see Chapter XVI). Its paid-up capital of £500,000 is divided into shares of £1 each. Two members of the company have sold, through stockbrokers, their respective holdings of 250 and 720 shares. The brokers of the buyers of the shares have sent in the two transfer deeds ; and the share certificate, now surrendered by each seller, is attached to his transfer. These documents will be passed on to the secretary of the company. He will have the old certificates cancelled at once ; and if the transfers are in order, he will have a new certificate prepared in the name of each of the buyers. At the next meeting of the Board of Directors the transfers will be passed and the new share certificates will be sealed and signed. Then the secretary will send them to the buyers' stockbrokers, who send the transfers in.

DISTRIBUTION OF THE MAIL. All invoices received for goods coming in would be sent by the letter sorters to the Register of Inward Invoices described in Chapter IX. Invoices received for

stationery and expense supplies would be checked by the storekeeper of these goods. Those for repairs to buildings or interiors would be passed by the person held responsible, after he had checked them off with the estimates he had accepted for the work. Electricity and gas accounts must be checked by the meter readings. They would then be passed to the Bought Ledger or Accountant's Office. So would notes received for rents and rates, and similar fixed charges.

Statements of account would go to the Bought Ledgers to be checked in time for payment, also receipts for payments outwards to be marked off against the entries in the Cash Book. The receipts, numbered to correspond with the Cash Book entries, would be filed away in the order of their numbers. Cheques received should be handed to the cashier to be banked without delay. On the customers' statements received with them the cashier would mark the amounts of the cheques he retained. The statements themselves would be passed on to the ledgers, to be checked with the ledger accounts before they were receipted for return to the payers.

Orders from customers go first to the Register of Customers' Orders, where they are recorded or listed as explained in Chapter VII. Then they go to the selling departments for execution. Inquiries for prices or samples would be dealt with, either by each of the selling departments whose goods were inquired about, or by an inquiry section of the Correspondence Department which we refer to below. We have already stated that matters concerning shareholders are sent to the Secretary's Office. To the secretary, also, would pass communications about leases, agreements of special kinds, legal matters, and anything for attention of the Board.

THE CORRESPONDENCE OFFICE. Letters from the manufacturers and other suppliers of the business would go direct to the departmental buyers to be answered or otherwise dealt with by them. Letters from customers, however, would probably pass to the Correspondence Office. Frequently each department is left to answer its own customers' letters. The result is that correspondence with customers shows a lack of unity and efficiency, alike in matter and in form—defects that make a bad impression on the very people whose good opinions are essential to the success of the business. It is much better, where it can be so arranged, that all letters from and to customers should be handled by a correspondence department

conducted by a competent staff under a capable head. Letters to customers would then be written from reports that the departments would be required to make on forms supplied to them for the purpose. It would be found desirable to keep a register of the letters sent to departments for reports, and the register could take a form like that for invoices received, as described at page 100. Each letter passing between the Correspondence Office and a department would be signed for as it was set out or returned.

Complaints received from customers should be given very special attention. Continued cause for complaint sends customers elsewhere for the goods they need, and a business cannot thrive on customers dissatisfied. For the reason that customers' complaints are so important, they may be given the personal attention of a director or a partner of the business. Other letters of first importance may also pass under his personal supervision.

WRITING THE BUSINESS LETTERS. To-day, nearly all business letters are typewritten, and usually they are taken down in shorthand by the typist. In some business houses, however, a dictating machine is used. Then the letters to be typed are dictated into the machine, which makes a record of the dictation. By this method the typist has not to be called to the dictator for the letters to be given down. They are spoken into the dictating machine just as it suits the dictator to deal with them—one now and one again, or several at a time. Later each is reproduced from its record, through the typist's earphones, whilst she types it out without using shorthand notes. Dictation of letters should be done as much as possible in the early part of the day, so that the typist's work shall not all be thrown into the later part.

Copies must be made and kept of all letters sent out. The copies should be made by carbon leaf, original and copy being typed off at the same operation. Each letter should bear a reference, such as the initial letters of the dictator's name or a filing No. When the correspondent quotes this reference in his reply, time will be saved in allocating the reply to the proper person, or in finding the preceding correspondence on the letter files. If the signer of a letter alters the typed original he should also alter the copy, unless he has the letter typed anew in duplicate. He ought to initial the copies of all the letters he signs, thereby certifying them as full and correct records of what he has had sent.

The bringing together under one correspondence staff of as much as possible of the business letter-writing, gives better control of the typing. The centralizing of typists allows their work to be spread more evenly. When they work apart in separate offices, one typist often has too much to do, and another not enough. Where the work is centralized, each department head, with letters to give down, will send to the typists' room for a typist to come and take them. The supervisor of the typing section will see that work is spread over the staff with fairness. The head of the section will also see that machines are kept in good condition, that they are cleaned regularly and put in proper order when anything goes wrong. The typewriter can now be worked electrically by a small motor attached to the machine and connected with the wiring of the lighting system. The object is to save the typist effort, and to get more work done in a given time.

The Correspondence Office would deal not only with the dictating and typing of letters ; but also with sealing, stamping, and dispatch. It would control the filing of correspondence and the main index of customers ; probably, also, the duplicating and addressing machines, where these were in use.

DISPATCH OF THE OUTWARD MAIL. A Post Book, to record dispatch of letters and small postal packets, is necessary in the office. The question frequently arises whether a letter to a certain person on a certain date was actually sent. If the Post Book shows an entry to that person on that day, then a letter for him went through the stages of sealing and stamping. And it may be assumed, as a rule, that it also went through the last stage of all, namely posting. Until recent years all out-going letters were stamped by hand, and the value of the stamp was entered in the Post Book against each name.

Now, however, franking machines are coming into use which save the affixing of adhesive postage stamps, and save their cancellation by the Post Office. The stamp put on a letter by such a machine is an ink impression only. A meter, detachable from the machine, is set and locked by the Post Office ; and it records the number of letters stamped in several different values. Other stamping machines take adhesive stamps bought from the Post Office in rolls instead of sheets. The machines also register automatically the number used, and they render impossible any petty pilfering of stamps in hand.

It is necessary to exercise care to see that all enclosures are inserted before outgoing letters are sealed. There are appliances in use for mechanically sealing the envelopes of letters going out. Letter-opening machines can also be bought for rubbing open the edges of the envelopes of letters coming in, so saving the trouble of slitting them open by hand.

THE KEEPING OF THE LETTER FILES. 1. Dictionary Order. Alphabetical arrangement is the most convenient for the filing of business letters ; but it should be alphabetical order exactly like that of the dictionary. The letters are arranged first according to the initials of the correspondents' surnames. Where the initials of two surnames are the same the arrangement follows the alphabetical order of the second letters in the names. Should the second letters also be alike, the third letters determine the order ; if these are alike, the fourth, and so on. Where surnames are wholly alike, filing goes by the christian or other names. When these are the same it goes by the correspondents' towns. A letter from David Green would be filed after one from Daniel Green, and one from Evan Jones of Merthyr would follow another from Evan Jones of Aberdare. Correspondence with The New Era Vacuum Cleaner Co. would be filed under N. A letter to the Manager, Barclays Bank, Lincoln, would go under B, unless communications with Barclays Bank in different towns were numerous, and then this letter might go under L.

Strict alphabetical arrangement brings all letters from and to the same person into the same place on the file. Whilst they are kept together in that place, these separate letters should be arranged in order of date amongst themselves. Frequently many letters on the same subject are sent to and received from several different persons. For example, on a subject such as a purchase of property, or a fire insurance claim, correspondence may be carried on for some time in different quarters. In these cases it will usually be best to file all the letters together in date order under the name of the subject.

2. Numerical Order. Sometimes the letter files are arranged numerically, each correspondent being given a filing No., and all his letters being placed on the file under that No. That method, however, necessitates the use of an alphabetical index (usually a card index) to the file ; and a given correspondent's filing No., when it

is not known, is ascertained by looking up his card or entry in the index.

For many documents, though not for letters, some kind of numerical order is more suitable than the alphabetical one. A good plan for the filing of inward invoices, according to the numbers of the entries in the Purchases Journal, was described in Chapter IX. That method is also very efficient for the carbon copies kept of outward invoices, for copies of debit notes sent to suppliers of goods and of credit notes given to customers for returns and overcharges. Receipts obtained for payments to suppliers may also be conveniently filed by numbers. If the entries made in the Cash Book for these payments are numbered consecutively by hand, then the receipts can be marked to correspond, and be filed away in the order of the numbers given to them.

3. Vertical and Flat Filing. For letters the best form of file is the vertical one. Letters are placed in that file standing upright on their left-hand edges and with their faces to the front. Placed in that way all the letters are easily accessible, as the right-hand edge of every one is then at or near the surface of the file. Where, as in the flat-filing method, letters are placed one on the top of another, a letter required for reference cannot be found or read without first turning over all those filed above it. And, where the contents are held together by the fastening usual in flat files, the fastening must be removed, and put back again, every time a letter is taken from or placed upon the file. The flat method is suitable for invoices and other documents, kept to substantiate or elucidate entries in day books or journals, and filed in the order of the entries. The numerical order given to these documents is a permanent one. Additions to the documents on the file simply follow on the top, and they do not disturb the order of the contents already on the file.

On the other hand, in filing correspondents' letters the order is never permanent. It changes with each addition to the contents of the file. New letters to be filed are inserted here, there, and everywhere, amongst the letters already on the file. In such circumstances the repeated turning over of letters, filed above the place required for insertion or extraction, would be a considerable inconvenience, and so would the unclasping and reclasping of a fastening. In the vertical form of letter file no document lies above another,

but all contents stand on edge together. Besides, there is no fastening to be removed and replaced continually. Letters can, therefore, be found and read, inserted or extracted, much more easily when filed upright than they can be when filed flat.

4. Guide Cards and Folders. Where alphabetical order is followed, A B C tabbed guides, interspersed throughout the file, are necessary to facilitate quick reference. In a vertical file these guides are stiff cards ; in the flat file they are tough limp sheets. A small file might consist of a single drawer or box ; but a large file would consist of one or several cabinets, and would include many filing drawers. In the single-drawer file a simple A B C division of the guides would be sufficient. Where a whole cabinet was used for one continuous file some subdivision of the simple A B C arrangement would be needed. B section could, for example, be subdivided by cards marked—

Ba Be Bi Bl Bo Br Bu By

The name BATES would go into the first subsection, BELL into the second. The place of BLAKE would be in the fourth, BROWN in the sixth, and BYNG in the eighth. In the largest of letter files greater subdivision still would be expedient. Main-division and subdivision cards would be of different colours.

Dictionary order must be observed in the arrangement of the guide cards as well as in the documents between. And it must be strictly observed, so that every correspondent's letters will come together in their own place, and be looked for in that place only. Each regular correspondent will be given a folder or cover to hold his letters together, and his name will be placed on the folder near its upper edge. When reference to his correspondence becomes necessary, his folder, containing all recent letters from and to him, will simply be lifted out of the file. It should, of course, be put back in its place at once ; or, if it must be taken away, a paper dated and initialed by the person taking the folder should be slipped into the vacant place.

5. When Files Fill Up. The contents of a large filing cabinet would be apportioned as evenly as possible to the several drawers. As drawers tended to get choked up, the older contents would have to be removed. An arrangement that works well is to keep one set of drawers for, let us say, all letters of JANUARY-MARCH, and another

set for those of APRIL-JUNE. Before the beginning of July the JANUARY-MARCH set would be emptied, the contents of each drawer-file being removed in undisturbed order to a wooden transfer box of the same size as the drawer. The empty set would then be available for JULY-SEPTEMBER letters ; and towards the end of September the APRIL-JUNE set would be emptied similarly to make room for OCTOBER-DECEMBER. That would allow the letters of the last three to six months always to be immediately at hand for reference. After two or three years the contents of the oldest transfer boxes could be sent to the destructor, as room must be made for the newer material that current files periodically disgorge.

6. Responsibility for Filing. The work of filing *letters* should be centralized. Unless that is done one scarcely knows on which of many files, kept in different places, to look for correspondence on a subject, and much time may be wasted in finding out what was previously done about some matter that has just cropped up again. Particularly is that so where the heads of a business pass out a letter to be dealt with by one person this time, and a similar letter to be dealt with by a different person at another time. If, however, one general file is kept for all correspondence, all letters will find their way to that file.

That general file should be located in the Correspondence Room, and the responsibility for keeping it in order should be placed upon a particular person. Filing must be kept up to date. It must be made a daily duty, all the letters of to-day being filed away during the morning of to-morrow. The letters, too, must be filed in their proper places, laxity in that respect not being permitted. The object of instituting systematic filing arrangements is to save time and temper in looking for documents required. Little of either will be saved if careful efficiency in the working of the arrangements is not insisted upon.

INDEXES AND HOW TO KEEP THEM. 1. The Card Form of Index. Perhaps the commonest use for an index is that of Customers' Address Book ; but in establishments conducted on up-to-date lines the list of customers' addresses does not nowadays take the form of a book. With book form it is not possible to get the entries in the index into the most useful order. An address, when wanted, should be ascertainable with the least possible trouble, and for that reason a record kept in strict dictionary order is the best. A card

index arranged in the same manner as the vertical file is now the most usual form. It consists of a box or drawer, or a series of drawers, of suitable size. In it cards, commonly of the size of a small envelope, stand on their lower edges. Each card should bear on its face the name of a customer with the surname written first, his full address, a description of his business, his telegraphic address, his telephone number, and any other particulars desired. Division cards of special colour, with projections to show the name of each alphabetic division, are interspersed amongst the name cards, just like the guide cards of the vertical file.

2. Advantages of the Card Index. The chief advantages of the card form of index are these—

i. That each new entry can be inserted in the index at the exact place it should occupy. With a book form of index each new entry has to be made on the next available line of the opening set apart for the appropriate initial. To find a name in a book index we must turn to the section for the initial letter of our name, and then look down the entries in that section until we come to the one we want. Where an index in book form is a large one the finding of the names takes up considerable time. With a card index, however, we pass quickly to the exact place for the name, just as we do when looking in the dictionary for the meaning of a strange word.

ii. The card index can be divided up into geographical or other sections, with the contents of each section arranged in dictionary order. An index might, for example, consist of sections for London, South of England, West of England, Wales, Midlands, Eastern Counties, Yorkshire and North-east Coast, Lancashire and West Coast, Scotland, Ireland, and the Continent. Because the cards are all movable the sections can be re-arranged at any time, with every card still in its proper place in the new arrangement.

iii. In the book form of index all the entries must be rewritten when the book is filled. On the other hand, the card form of index gives unlimited expansion. The card index is never full, because additions can always be made without having to disarrange or rewrite any old cards.

iv. In time a book index becomes choked with many names that have ceased to be in use. That need never occur in the card index. Out-of-date cards can always be removed to an out-of-date drawer, leaving in the current drawers live names only.

3. Indexes in Other Forms. For a ledger kept as a bound or loose-leaf book an index in page form is the most suitable, because it is a convenience to have it bound up with the ledger leaves, or to slip it inside the cover. The disadvantages of its form can be partly remedied by subdivision of each initial opening into six sections, corresponding to the vowels A, E, I, O, U, and Y. Any given name is then to be found in the division corresponding to the initial letter of the name, and in the vowel section of that division corresponding to the first vowel occurring in the name after the initial letter. The name "Brown" would be indexed under initial B and vowel O; "Edmunds" under initial E, vowel U.

When using the ordinary form of card index one takes some little time to find and pick out the particular card one wants. Some modifications have, therefore, been introduced into the ordinary form, with the object of showing many names at one view, and yet keeping every name in its dictionary order. The *Kardex* is one of the better known of these new forms. It has the cards arranged overlapping each other in long shallow trays, with only the name showing on a narrow strip at the foot of each card. Picking out the card we want, we can without dislodging them, raise the cards that overlap it, and read all the particulars the required card contains. In the *Bizada* index the names and addresses are kept on narrow strips of card arranged in similar form on a metal frame.

4. Uses of the Card Index. We have referred to its use as an index to a vertical file when the file is arranged under correspondents' Nos. instead of alphabetically. We have referred, also, to its use for recording the names and addresses of customers. In Chapter VII we described such an index, with the cards of a larger size, as suitable for recording the trade done month by month, and year by year, with individual customers. The card index may be used as a buyer's register of makers or suppliers of goods of different kinds. It can serve as a register of employees, or as an index of shareholders' addresses. National Health and Unemployment Insurance cards can conveniently be kept in the card-index manner. In some circumstances credit accounts may be kept on cards arranged in this way, particularly when the accounts are small and discontinuous. Records of stocks or stores on hand are sometimes kept on cards, a separate card being used for each different kind of goods. When the records are too lengthy to be made on cards,

the advantages of the card method can be secured by using loose leaves held firmly together in a suitable binder. In Chapter VIII we described a record of advertisements intended to be kept in that form.

OFFICE APPLIANCES OF OTHER KINDS. For circularizing purposes so-called "duplicating" machines are used to print off multiple copies of the same letter. Most of these machines print through stencils, which may be made by hand, but are usually cut by typewriter on wax paper. A rotary stencil-printer, when the stencil is fixed and inked, throws off a clear copy of the letter each time the handle is turned. The names and addresses to which the letters are to be sent are afterwards placed upon them singly, by typewriter or addressing machine.

The addressing machine is another useful appliance in the business office, and the heavier the circularizing or catalogue-posting to be done, the more serviceable such a machine becomes. It will print addresses from stencils or plates as quickly as an operator can feed the machine with envelopes or wrappers. Small machines are operated by handle, larger ones by treadle; but for heavy work they are supplied with small electric motors to be driven by the lighting current. The stencils or plates are kept in trays in card-index order and form.

Quite commonly in these times the addressing of envelopes is saved by having each customer's full address typed on invoices, statements, and circulars, or printed on them by addressing machine. The documents are then folded so that the addresses show plainly through the window envelopes in which they are sent to post. Invoice and statement forms are also supplied, made in special shapes, to be fastened up with the heading (which shows the customer's name and address) folded outside for postal use.

Where much calculation has to be done machines should be used for the purpose. The best of such machines are operated by pressing down keys marked with the figures to be recorded. An adding and listing machine will add amounts fed into it through the keys, and will type a list of the amounts at the same time. Others are calculating machines only, and are used chiefly for multiplication and addition. Calculations, such as $329\frac{3}{8}$ at $2s. 8\frac{1}{4}d.$, can be worked easily and quickly by the trained user of a suitable machine. By means of adding attachments the typewriter is made to add as well

as type, and it can be used successfully in that way for some kinds of office work.

Mention may be made here of machines for protecting cheques from fraudulent alteration, punching out the true amounts, or shredding them into the tissue of the paper. The "cheque writer" will mark in the amounts on cheques more quickly than they can be written in by hand, and will do it so that any attempted alteration will be plainly seen. The serial stamping machine is a small appliance that saves much time when documents have to be numbered consecutively. It can be set to make a single, double, or treble impression of each number before slipping on to stamp the next one.

QUESTIONS

1. Name six different kinds of modern office appliances, and explain in some little detail what purpose each serves.

2. What different forms of index are you acquainted with? Which form do you consider the most suitable for business use? Give reasons for your opinion.

3. Describe the form of a card index. Name four distinct uses to which the card index can be put. Explain its advantages over other kinds of index.

4. Explain in detail two different orders that can be adopted in arranging the contents of files. Contrast their suitability for different types of business documents.

5. Describe the construction of a vertical file. Contrast it with the flat file. Explain which you prefer for different kinds of documents, and why.

6. (a) For how long would you keep the ordinary letters, invoices, and receipts of a business before destroying them?

(b) How would you arrange for clearing current files of their contents as the files became too full?

7. (a) Why should filing always be done carefully and be kept up to date?

(b) Where would you keep the files for different kinds of documents, and on what persons would you place the responsibility for the filing being done properly?

8. Explain in detail the arrangements you would make in a large business for dealing efficiently with letters to customers.

9. Name six important documents that are commonly used in business transactions. Explain clearly the purpose of each.

10. What arrangements would you make for the dictating, typing, and copying of outgoing letters in business?

11. If you were responsible for opening and sorting the inward mail, to what departments would you distribute (a) invoices, (b) statements of account, (c) cheques, (d) orders, (e) letters from customers, (f) letters from suppliers of goods, (g) receipts, (h) debit notes from customers?

12. What views do you hold about the manner in which letters should be dealt with for sealing, stamping, and posting?

13. Supply suitable names and addresses yourself, and write in correct form an invoice for the following—

2 boxes, 28 lb. each, Jordan almonds at 207s. 6d. the cwt, plus $2\frac{1}{2}\%$
2 " " " Catania " at 210s. " " "
ex St. Katherine Dock, payable in 28 days net.

14. The customer finds that one of the boxes of almonds mentioned in Question 13 has been delivered to him damaged, and he decides to return it. Show his debit note. Write a letter to the wholesale supplier, explaining how and why the box is being sent back, and in what way it is damaged.

CHAPTER XI

ACCOUNTS AND PAYMENTS

AT places in preceding chapters we have considered matters that touch closely upon the keeping of business accounts and the making of business payments. We have dealt with the warehouse and dispatch-room records of goods going out to customers, with the invoicing of the goods and the making and keeping of copies of the invoices, with the passing and crediting of goods that customers return. We have also dealt with the registering and checking of invoices inwards, with the return of goods outwards, with the receipt of cash for ready-money sales and for accounts. The reader must consult a work on Book-keeping about methods of writing up goods transactions in Purchases, Sales, and Returns Books, of recording receipts and payments in the Cash Book, of posting these books in the Ledger to accounts of customers and creditors, and to accounts kept of expenses and equipment. In this chapter we shall now treat of some counting-house duties that are not strictly book-keeping or accountancy affairs.

THE GRANTING OF CREDIT TO CUSTOMERS. Previously we have stated that it is the rule in wholesale trade to supply goods on credit, and to render for payment monthly statements of account. Credit cannot be given, however, without discrimination, for in every trade there are some people who find difficulty in paying, even after long credit, for the goods they manage to buy. On the other hand, there are houses well known in every trade, of long standing and good reputation, to which suppliers would give credit without question, though they had not dealt with these houses before. Again, in every trade there are many retail dealers whose standing is not known, or not known well enough to justify the granting of credit without due inquiry being made.

1. Trade References. When a first order is taken from a customer of the last class he should be asked for "trade references," that is, for the names of business houses he has been accustomed to buy

from on credit. Inquiry is then made of these houses, the questions asked being such as these—

1. How long the subject of inquiry has been known by the house written to.
2. Up to what amount he has been allowed credit at any one time.
3. Whether or not he pays his accounts regularly and for best discount.

Two or more references should be taken, so that the answers obtained from them can be compared. A trader will naturally give the names of those wholesalers who are likely to furnish the most favourable replies about him. Whilst keeping most of his suppliers waiting for their money, he may be very careful to see that one house is always regularly paid for discount, so that he can safely give the name of that house whenever a reference is required of him. A person who is just starting in business for himself, and is purchasing a going concern, should supply to creditors details of the capital at his command, of the prices he has agreed to pay for stock and goodwill, for lease and fixtures, and of whether payment has been made in full or is to be completed by instalments. Further, he should furnish the creditors with the means of substantiating the information given. Probably he will supply all the particulars, and the name of the valuer who acted for him, to the wholesaler he intends to use as his main source of supply. Other suppliers with whom he opens accounts will be given the name of that wholesaler as his "reference house." Travellers should be instructed to ask for references when they take orders from new customers. If a printed form is used to be filled up whenever a new account is opened, it will help towards full and correct information being obtained.

Between houses in the city references are usually taken up orally by messenger. Distant inquiries are made through the post, and stamped addressed envelopes are enclosed for the replies. An unfavourable answer which turned out to be other than a true representation of facts could, in certain circumstances, be made a cause of libel action by the subject of the inquiry. For that reason it is customary to mark answers to these inquiries to the effect that they are meant to be "private and confidential" only. A favourable answer that was afterwards discovered to be untrue, and that had resulted in the inquirer making a bad debt, might lead to his bringing an action for misrepresentation against the giver of the information.

With that possibility in view, the writer of the reply may state that he gives it "without responsibility" for the consequences.

2. Status Inquiry Offices. Wholesale houses usually subscribe to one or more inquiry agencies, or trade protection associations, which procure and keep on their files information about traders and others who buy on credit. In return for an annual subscription the agency supplies a book of inquiry forms. A gazette of insolvency and similar news published periodically may be included for the subscription paid. References to responsible business houses usually bring the most satisfactory information, because the replies give at first hand the actual experience of the houses referred to. A status report from an inquiry office is, however, useful to check a direct report, in case the trader has specially nursed his account at the particular house used for reference. These reports are useful, also, for disclosing court proceedings, previous arrangements with creditors, and the like. The question of debentures, which give the holders a claim on a company's property prior to that of trade creditors, must not be overlooked in giving credit. Particulars of these and of a company's capital, shareholders, and directors can be obtained from the files in the office of the Registrar of Companies. Unless a company is a "private" one, it is also required to file annually an audited balance sheet.

Trade references cannot be relied upon when they are names unknown in the trade. A fraudulent practice sometimes followed is for two persons of no means to have presentable stationery printed. Each name is then given to different suppliers as a reference for the other, with the view of obtaining goods which neither person ever intends to pay for. Where credit has been given and payment has not been made at the appointed time, inquiry at the debtor's address discloses the fact that he was there only for a short while, and that he and the goods have now both disappeared.

3. References to Banks. When opening an account with a new supplier, a trader may give for reference the name and address of his bank. It would be of no use for the supplier to make inquiry direct of that bank. Except by special arrangement with the customer banks answer such inquiries through other banks only. The inquirer should ask his own bank to procure an answer for him from the bank of the new customer. The answers of bankers to status inquiries are not very informative as a rule. In the past

bankers have had unfortunate experiences resulting from the giving of favourable replies, by acting on which suppliers have suffered loss. The answers banks now give shun the making of definite statements. A typical banker's report would be, "Subject of inquiry respectable and considered good for the sum named."

Credit may be given on the guarantee of a third person. The guarantee to be enforceable must be in writing signed by the guarantor. Whether it applies to a single purchase or to a continuing account depends on how it is worded. A simple form would be : "In consideration of your supplying goods on credit to A B, I hereby guarantee you payment, to the extent of fifty pounds, of any sum owing to you now or in the future in respect of goods so supplied— C D."

4. Preservation of Status Reports. Either the original reports obtained, or copies of them typed out on cards, should be filed away for preservation. Each card or set of replies should be given a consecutive No., and that No. should be placed at the head of the account opened in the Ledger. Facts that come to the creditor's knowledge at any later time, and that bear upon the customer's standing, should be filed under the same No. along with the original reports. If the terms are ascertained on which the new customer wants to pay, they also should be noted at the head of his ledger account, so that statements shall be rendered to him in accordance with his wishes. Some customers always want to pay for best discount. It suits others to forgo the whole or part of the discount, and to take longer credit instead.

5. The Passing of Customers' Orders. To obtain satisfactory references, or in their absence to refuse credit, is the first precaution against the making of bad debts. The second precaution is that all future orders shall be formally passed for credit before they are put in hand. No letter order from any customer should ever be put into execution until it has been stamped or initialed by a person held responsible for allowing credit. Similarly no order given orally in the warehouse, or taken over the telephone, should be sent for dispatch until sanction of credit has first been formally obtained, or payment against the invoice has been received. The duty of sanctioning credit is responsible work ; it must not be treated as anybody's job, but only that of the clerk or clerks duly authorized to perform it. A considerable amount of judgment and tact is

needed in the exercise of the duty, and a person who fails to display these necessary qualities is not suitable for the work. In difficult cases a sanction clerk should take advice and instructions from above.

TERMS OF PAYMENT. Terms of payment differ with different trades, and sometimes for different goods in the same trade. Our specimen of a manufacturer's invoice on page 98 is subject to a

MONTHLY STATEMENT OF ACCOUNT

CRIPPLEGATE SQUARE,
LONDON, E.C.2

28th February, 19..

WILSON'S DRAPERY STORES,
MELCOMBE ROAD, WEYMOUTH.

DEBTOR TO

BROWN, DOBBS & GIBSON, Ltd.

19..			£	s.	d.	£	s.	d.
Feb.	3	Goods as invoice . . .	21	0	10			
	10	" " . . .	10	2	7			
	14	" " . . .	4	5	9			
	18	" " . . .	27	12	2			
						63	1	4
Feb.	17	Returns . . .				2	9	6
						<u>£60 11 10</u>		
		3½ per cent 1st March . .						

discount of 3 per cent for prompt payment, that is, for payment within seven to ten days from the invoice date. Alternatively, it is subject to a discount of 2½ per cent for payment in thirty days, or for payment of that, and the other transactions of the same month, at the beginning of the month next following. That period of credit is known as a "short month," in distinction from a "clear month." In the latter, payment would be required at the beginning of the next month but one. For example, February account would be due on 1st to 10th April for, say, 2½ per cent; and the corresponding prompt discount in that case would probably be 3½ per cent.

The wholesale china-dealer's invoice shown on page 107 also states that $2\frac{1}{2}$ per cent discount will be allowed for payment in thirty days, whereas the wholesale drapery specimen on page 106 offers $3\frac{1}{2}$ per cent at the beginning of the next following month, and $2\frac{1}{2}$ per cent for payment two months later. Our invoice for sugar, on page 99 is marked for payment "net," or without discount, in fourteen days. The letters "C.O.D." placed on an invoice stand for "cash on delivery" of the goods; and "C.W.O.," appearing in a quotation, means that the buyer is to send "cash with order."

Statements of account, like the specimen on page 132, are generally rendered by suppliers to their customers at the end of each month. But, on request from customers who want to pay promptly for extra discount, suppliers will usually send a statement with each invoice, or render one every week.

When a debtor has agreed to accept a bill of exchange to be drawn on him for several items of different dates and amounts, it may be desirable to "average" the date. The average date would be such as allowed for the different sizes of the items as well as for the periods between them. That is called a "weighted average," and is ascertained in a manner similar to this—

EXAMPLE. Find the average date for a three months' bill to be drawn for the total of the following invoices—

		£	s.	d.		£	s.	d.
March	10	.	.	113	18	4		
"	19	.	.	201	10	6		
April	2	.	.	54	12	2	Total	370 1 0

The average date for the bill is found as follows—

April	2	is 23 days from March 10, and	$54\frac{1}{2} \times 23 = 1,253\frac{1}{2}$
March	19	" 9 " " " " "	$201\frac{1}{2} \times 9 = 1,813\frac{1}{2}$
"	10	" 0 " " " " "	$114 \times 0 = 0$
			<hr/> 370
			<hr/> 3,067

$3,067 \div 370 = 8.29$, which gives 8 days as the nearest number from March 10 for the average date. The bill should be drawn at three months from March 18 for £370 1s.

DISCOUNTS AND INTEREST. 1. Cash Discount. The kind of discount described above is called "cash discount," to distinguish it from "trade discount" described below. Cash discount is an allowance off the amount of an account, for payment of the account on or before an appointed date. It should not be deducted from the account unless and until payment is actually received within the

time prescribed. It should never be deducted on the invoice sent when the goods are dispatched, as payment may not be received within the time, or may never be received at all.

2. Trade Discount is an allowance in reduction of the price of goods sold. It is made without regard to date of payment. As it is part of the purpose of an invoice to show at what price goods have been sold, trade discount should be deducted on the invoice when the invoice is made out. Trade discount usually represents the profit due to a dealer, when he buys an article listed at retail price. For example, an electric vacuum cleaner, offered to the public at £10 10s., may be invoiced to a hardware dealer with 15 per cent, or £1 11s. 6d., deducted from that price as trade discount. In some businesses, where prices change often, the rise and fall in price from time to time is given effect to by adding or deducting a percentage of the listed price. That procedure saves the expense of frequently reprinting catalogues or price lists.

3. Banker's Discount is a deduction made from the amount of a bill of exchange payable at a future date, when a banker advances the present value of the bill to the holder of it, and takes the bill in return for the advance. Banker's discount, like interest, is calculated at a given rate per cent *per annum*, for the period the bill has still to run to maturity. But, unlike true arithmetical interest, it is calculated on the amount of the bill instead of on the sum advanced.

EXAMPLE 1. On a bill of exchange of £340 due two months hence, and discounted at $5\frac{1}{2}$ per cent per annum the discount would be $£3.4 \times 5.5 \div 6 = £3$ 2s. 4d.

EXAMPLE 2. If the bill were for £340 12s. the period 87 days, and the rate $4\frac{1}{2}$ per cent, the amount of the discount would be found thus—

$$\begin{aligned}\text{Discount} &= £340.6 \times 87 \times .04875 \div 365 \\ &= £3.406 \times 87 \times .975 \div 73 \\ &= £296.322 \times .975 \div 73 \\ &= £288.914 \div 73 \\ &= £3.958 \text{ or } £3 \text{ 19s. 2d.}\end{aligned}$$

In practice the discount would be ascertained by reference to ready-calculated interest tables.

4. Interest is a charge made for the loan of money, or for delay beyond the net date in making payment of an account. It is usually calculated as a rate per cent per annum of the sum lent or of the overdue amount. Interest cannot legally be charged on overdue accounts until in a written demand for payment notice has been

given that it will be charged. It is for this reason that statements of account often bear the printed notice that interest will be charged when accounts are overdue.

5. Calculation of Discounts. Cash discount is allowed at low rates such as $2\frac{1}{2}$ per cent or $3\frac{1}{4}$ per cent. Trade discounts are commonly made at higher rates, such as $12\frac{1}{2}$ per cent, 15 per cent, or 20 per cent. For the purpose of calculation 5 per cent may be taken as $\frac{1}{20}$ th or 1s. in the £1, and $2\frac{1}{2}$ per cent as $\frac{1}{40}$ th or 6d. in the £1. The rate of $3\frac{1}{4}$ per cent is $1\frac{1}{2}$ times $2\frac{1}{2}$ per cent; $7\frac{1}{2}$ per cent is $1\frac{1}{2}$ times 5 per cent; $12\frac{1}{2}$ per cent is one-eighth of the amount to be discounted, 20 per cent one-fifth, 25 per cent one-fourth, and $33\frac{1}{3}$ per cent one-third.

For rates like $\frac{1}{2}$, 1, $1\frac{1}{2}$, 2, 3, $3\frac{1}{2}$, 4, and $4\frac{1}{2}$ per cent, a quick method of calculation is the following—Take the number of round pounds nearest to the amount to be discounted. Multiply that number by twice the rate of discount. In the product then obtained the units digit is tenths of a shilling, or approximately pence. The other digits are shillings.

EXAMPLE. $3\frac{1}{4}$ per cent of £417 15s. 10d. gives $418 \times 7 = 292.6$, which makes the discount approximately £14 12s. 6d.

Proof: $3\frac{1}{4}$ per cent discount on £100 = £3.5
 " " " " " £1 = £0.035 = 0.7 shillings
 " " " " " £418 = 418 times 0.7 " "
 = 292.6 shillings as above.

The deduction of two discounts in succession does not give the same result as the deduction at one time of the two discounts combined. For example, £260 less 20 per cent leaves £208; but, in £260 less 15 per cent and 5 per cent, £260 less 15 per cent gives £221, and £221 less 5 per cent gives £209 19s.

WHEN ACCOUNTS RUN OVERDUE. A partial preventative of bad debts is to look well after accounts as they pass the date when payment should have been made. Attention, however, at the stage of granting credit is more important than attention here. For, if the original blunder was made of giving credit in a hopeless quarter, attention to the account when it is overdue is not likely to retrieve the loss.

Another reason for giving care to accounts becoming overdue is the desirability of preventing capital being sunk in book debts to excess. Capital absorbed unnecessarily in book debts is capital that

is idle. Its dormant state curtails and hampers the profit-earning powers of the business. To pay interest on loan or overdraft is foolish policy when money lies inactive in book debts allowed to remain long overdue. Besides, losses, incurred on debtors that fail to pay, swallow up the gains made on accounts that are regularly settled.

When monthly statements are being dispatched, those for accounts that are falling overdue should be picked out, and letters should be sent to the debtors. Record of these letters should be kept, and payments that come to hand afterwards should be marked upon them. Where answers are not received within a reasonable time, the first letters should be followed up by others pressing for payment to be made. Where the sum in consideration is a large one an appointment with, and personal call upon, the debtor may accomplish more than continued letter-writing would. At what point legal steps should be taken to enforce payment is a question partly of the custom of the trade in regard to credit and of the practice of competitors, partly of the independence of the creditor. Long-winded debtors that run up big accounts on months of credit are not the most desirable of customers. For there always hangs over the business done with them the risk of heavy losses being incurred in the end.

The practice of taking accepted bills from slow-paying debtors is not so general as it used to be. The chief advantage of an accepted bill lies in its fixing the debtor down to a definite date for payment. The bill is, however, of little immediate use when the date for payment arrives, if the debtor has not enough money to meet it, and asks for it to be renewed for a date that is later still. Any orders sent in by debtors who are much behind should be refused, or should be held over with the debtor's consent until satisfactory remittances are received.

THE PAYING OF CREDITORS' ACCOUNTS. In business monthly payments are the most usual. Weekly payments are, however, fairly common—more so than they used to be, as business men are now keener, and like to secure the benefit of extra discount. Monthly payments are nearly always made on the creditors' own statements of account; but weekly payments are sometimes prepared from the invoices for the goods. The latter practice is not always safe in a large business, and statements should be obtained

whenever possible. Some departments are not as careful as they are expected to be about the passing of invoices and debit notes. Now and again a creditor's statement, when it comes to hand, reveals some correction or allowance which the department has failed to pass through the usual routine to the counting house. If, in such a case, payment were made from the invoice for extra discount, the creditor would probably get too much.

Each statement of account to be paid is checked, item by item, with the creditor's ledger account. It will not be necessary to refer to the invoices on the files, except when Ledger and statement show different amounts for the same invoice. If the statement is incorrect it must be altered. Frequently it will be found that debits in the Ledger have not been deducted from the statements. These must be watched and taken off ; then the statements should be discounted. Next, they should be initialed by the person who authorizes payment to be made, and a cheque should be drawn for each. Directors or proprietors should require all accounts to be paid by cheque. Each payment will, in that way, come under their notice as the cheque is signed. They would be wise, also, to insist on seeing the statements for the cheques they sign, and to have them marked as having passed through their hands. Receipts, either on the statement or on the cheques, must be obtained for all payments made, and they should be filed away under numbers as explained in Chapter X.

Every business proprietor, in a position to do so, should cultivate the reputation of being a good payer. Creditors notice quickly from which of their debtors cheques come regularly to hand at the appointed time. Some companies, though they earn good profits and pay big dividends, are a little lax about paying creditors up to time. But, even where the soundness of their position is well known, the favourable impression made by regularity in payment is worth taking pains to create. To the small man such a reputation is worth a great deal more. A watchful eye must, however, be kept on the bank account to see that the balance is always large enough to meet the cheques drawn—unless, of course, the account is intentionally overdrawn.

WAGES AND PETTY PAYMENTS. Wages should not be paid by the person that prepares the wages sheets or books. What procedure exactly should be followed will depend on the size of the

business. It may be that the wages sheets are written up and initialed each by the head of the department to which the sheet refers. Where time records are kept, either by book or recording clock, the sheets would be made up from them by a wages clerk, who would make sure that the rates to be paid always agreed with those recorded on the employees' engagement cards. Payment should be made from the sheets by a pay clerk, who would sign the sheets he paid. If at branch shops wages are requisitioned and paid by the managers, they should be required to obtain and send to head office the signature of each employee for the sum he or she received. Attention to these or similar rules will make any dishonest manipulation of the pay roll impossible without collusion. Wages that cannot be paid through absence of employees should be handed back immediately by the pay clerk to the cashier, to be claimed from him when the employee returns. Wages sheets should be of the loose-leaf form, and should be filed away in binders, securely and in order, when the wages have been paid.

Wherever possible bills should be obtained for payments out of petty cash. In every case where a bill cannot be obtained, a pay-out slip, filled up by the person claiming the money and signed by his department head, should be required before the money is paid. The knowledge that these regulations exist and must be complied with will prevent undesirable irregularities taking place. Petty cash should be kept on the "imprest" method, the total expended being refunded by cheque at the end of every week or month. That regularly restores the balance in the petty cashier's hands to the amount originally given to him. If all creditors' accounts are paid by cheque, and if all cash received is paid into the bank in full, there will be left to be paid out of petty cash only small items such as carriage, postage, fares, and odd expenses. When the chief cashier refunds the petty cashier's expenditure, he should check the petty cash book and the vouchers, to see that they are in order. A check of the balance in hand should also be made occasionally to see that the float is intact.

THE BANK ACCOUNT OF THE BUSINESS. 1. Uses of the Current Account. A current account is the ordinary banking account of a business—one into which money may be paid, and from which money may be drawn, at any time. When money is paid in the bank requires a paying-in slip to be filled up, showing how the sum

paid in is made up of cheques, notes, coin, and so on. When money is drawn out a cheque must be used, whether the sum is to be paid by the bank to the owner of the account himself, or to some other person named in the cheque as payee. Bankers hold themselves ready to repay, on presentation of a customer's cheque, any or all of the amount standing to credit of the customer's current account.

Business men keep current accounts at their banks for several reasons. The first is that the business funds shall be lodged in a place of safety. By leaving them at his bank the trader is relieved of the trouble of taking care of them himself, the banker being responsible for seeing they are not lost. The second reason is that the business man may avail himself of the bank's services for the paying of his creditors by cheque. A third reason is the business man's desire to use the bank to collect for credit of his account the cheques that he receives. The cheque system has developed into the most convenient and most economical means of making and collecting business payments. So long as a debtor has funds available at his bank he has only to write and sign a cheque for the sum due, and post the cheque to his creditor. By means of their clearing arrangements the banks transfer the amount from the debtor's banking account to the creditor's, whether the two accounts are at the same bank, or are at different banks in the same or in different towns. The claim that the drawer of the cheque had against his bank is reduced by the amount of the cheque he has given, and the claim that the receiver of the cheque had on the same or another bank is increased to the like extent. The transfer is made entirely by entries in accounts between the collecting and paying banks or their agents, and between the banks and the customers concerned. Coin or notes are not needed to effect the payment, their use being wholly dispensed with.

Payment by cheque is not only easier and cheaper—it is safer than payment in notes or coin. The cheque, being written out specially for the payment it makes, is drawn for the exact amount. It bears the name of the payee ; and it can be so drawn as not to be payable to anyone over the bank counter, but to be collected by his bank for the person claiming the money, and only for credit of his account at that bank. It may be drawn so as to be collected by no bank other than that of the payee in whose favour the cheque

is drawn, and to be credited to no account but his. None of these safeguards is possible in using notes or coin.¹

¶ 2. Opening a Current Account. Before opening a current account for an applicant he does not know, the banker, like the trader, requires some assurance respecting the character of his new customer. He will request the new customer to introduce himself through the recommendation of someone the banker already knows, or he will ask for the names and addresses of two responsible persons from whom he can seek information. The issue of cheque books to strangers without inquiry is undesirable, because it places in the hands of unscrupulous persons the means of issuing cheques to unsuspecting tradesmen after the funds credited to the drawers' accounts have been exhausted.

When satisfied about the credentials of his new customer the banker will issue a cheque book to be used for disposal of the cash paid in. The customer will sign an order for the cheque book, and the value of the twopenny stamp impressed on each cheque will be charged to his account. The banker will previously have ascertained the customer's full name, address, and occupation, and will have taken a specimen of his signature, with which to compare, in case of doubt, the signature of cheques drawn on the account. A pass book will be handed to the customer, and in it the banker will from time to time enter up a copy of the customer's account. If the account opened is a partnership one the full name and address of each partner will be required, and a specimen of the firm name as written by each partner.

Where an account is opened for a company the banker requires a copy of the company's Memorandum and Articles of Association. He wants these so as to ascertain exactly what powers the company and the directors have, as the bank's dealings with the company, to be legally valid, must be kept within these powers. The bank will want to see the company's certificate of incorporation, or, if the company is a public one, the certificate entitling it to commence its business. The first of these certificates shows that the company has come into existence, and can exercise the powers its Memorandum and Articles give. Until the Registrar of Companies has

¹ For detailed explanations (which limitation of space does not permit here) of the handling of cheques and bills, of the services of banks, of the use of money and credit, and of the working of exchange, see the present author's *Modern Business and its Methods*.

issued the second certificate to a public company, the contracts that it makes are provisional only. The banker would require, in addition, a copy, signed by the chairman, of the Board's resolution authorizing the bank account to be opened; also instructions about how cheques, bills, and other documents were to be signed in drawing, accepting, and endorsing. Specimens of all signatures authorized would be taken.

3. Interest, Charges, and Advances. In London no charge is made by the banks for conducting a current account, provided the customer keeps a substantial balance standing to his credit. A charge will be made, however, if the balance becomes so small that the banker gets no benefit from holding it. In the Midlands and the North banks make a charge of, perhaps, one-eighth per cent of the cheques they pay for customers, or a charge of so much a year; but interest is allowed at a low rate on the credit balance held. In the London area, on the other hand, interest is never allowed on a current account.

A fourth reason for the keeping of a current account may be the business man's need for the help of his bank in the shape of an overdraft. When that is the case, the customer should arrange with his banker for the overdraft to be granted. It would be as well, also, if he came to an understanding about the rate of interest to be charged. Banks make a large part of their profits by lending, to one set of customers at higher interest, the money left with them by another set at lower interest, or at no interest at all. Unless a banker is fully satisfied about the soundness of a customer's position he will require security to be given for the overdraft. In either case he likes to be supplied with certified copies of the annual balance sheets. The security accepted may be an equitable or a legal mortgage on land and buildings. It may be the deposit under a memorandum of certificates of shares or stock, or of debentures; or the transfer of these securities to the bank's nominees. Whether the bank will be satisfied with deposit only, or will require formal conveyance or transfer of the security, will depend on the size of the sum the customer requires, and on whether the accommodation is intended to be merely temporary or not. Other kinds of security taken are assignment of life-insurance policies, or the guarantee of borrowing customers' accounts by third persons acceptable to the bank.

When it is an overdraft that is granted the customer simply draws cheques on his current account up to the limit, if any, agreed upon. Instead of the bank being debtor to the customer, the customer is then debtor to the bank. If it is a *loan*, and not an overdraft, that is granted, a fixed sum is advanced to the customer. The whole of the sum is debited to a separate loan account in the customer's name, and credited to his current account so that cheques can be drawn against it. In an overdraft, therefore, the sum advanced varies from time to time, and interest is charged only on the varying balance. With a loan interest is charged during its duration on the full amount ; but the rate for a loan may be less than it would be for an overdraft.

The discounting of approved inland bills for customers is, in effect, the advance to the customers now of sums that will not be due for some time to come. Foreign bills, too, drawn for goods exported are commonly purchased by the banks at their present value, if the bills of lading and the marine insurance policy are attached to each bill as security. In both these instances the banks retain a right of recourse against their customers should the bills be dishonoured by the drawees or acceptors.

4. Banks and Deposit Accounts. A *deposit* account may be opened at a bank with money the depositor does not immediately need. Interest is always allowed on deposit accounts ; but notice is required before the deposit or any part of it can be withdrawn. That relieves the banker of the necessity of holding the money available for immediate payment on demand, and gives him the opportunity of himself investing it at short call. Seven days is, perhaps, the most usual length of notice to be given ; but if longer notice, for example, a month, were agreed to for a deposit of substantial size, a slightly higher rate of interest could usually be obtained. The general rate in force at any time is announced in the daily Press, and varies with " bank rate," that is, with the Bank of England's official rate for discounting bills of exchange. For money left on deposit some banks give a deposit receipt endorsed with a blank order to repay, which must be completed and the receipt surrendered, when withdrawal is required. Other banks issue small deposit pass books. Cheques are not used for withdrawing money from deposit accounts. Most of the banks are now willing to take sums of quite humble amount—£1 and upwards—on deposit terms.

POST OFFICE FACILITIES FOR PAYMENTS. The postal orders and money orders obtainable at the Post Office are used mostly by individuals for making personal payments. For remitting money payable in this country business houses use bank cheques drawn on their own accounts. For sums to be sent abroad they get their bankers here to give them cheques or drafts addressed to and payable by banks in their foreign creditors' countries ; and the remitters here authorize their banks to charge the values of these drafts to their current accounts. An advantage to the receiver of both postal and money orders is the certainty that the Post Office, having issued them, will pay them when required. A cheque carries with it only the security of the drawer's name, and that may or may not be good. For that reason cheques cannot safely be taken from strangers. Notes and coin should be required when payment is made by hand. Postal or money order, banker's draft, or notes and coin by registered letter, should be asked for if the money is to come by post. Where, however, credit has been agreed to, cheques are taken freely, and very few of them are ever returned unpaid.

Unless a creditor asks that payment shall be sent to him in a specified manner, the responsibility for safety in transmission rests upon the sender. It is for safety against theft during transmission that cheques are commonly crossed. The crossing on a cheque makes it payable only to credit of a bank account, and prevents payment being made in coin or notes over the counter, to anyone who may forge an endorsement and ask for payment at the drawer's bank. It is for that reason, too, that the money order is safer than the postal order from the sender's point of view. The money order is payable only at a stated office, and only to the person who is named in the advice which the issuing office sends to the office that has to pay. Postal orders that are not filled in can be cashed at any Post Office by anyone. Though not "negotiable," they pass so freely from hand to hand that it may be difficult to trace all the parties who have held them. Even when the name of the paying office is filled in, a postal order can be collected through a bank in any other town.

QUESTIONS

1. (a) If you received an order for goods to be supplied on credit to a new customer you did not know, what references would you ask for from him? What information would you seek from the referees?

(b) What other steps could you take to get information that you could use as a guide in giving or refusing credit?

2. (a) Compare the usefulness of trade references, bank references, and reports of inquiry agencies.

(b) How would you keep for ready reference the reports you obtained about the standing and reputation of customers?

3. What precautions do you consider it advisable to take in answering inquiries about your experience of customers' accounts? Why would you take these precautions?

4. (a) What arrangements would you make in your business for the sanctioning or the refusing of credit on orders you receive?

(b) What procedure would you follow for watching customers' accounts that were overdue, and for getting in payment?

5. What is the purpose of a "statement of account" as distinct from the purpose of an "invoice"? Supply names and addresses yourself and write a specimen statement of account containing six items. Deduct $3\frac{1}{2}$ per cent discount from the final amount.

6. What is meant by "monthly discount," and what by "prompt discount"? Explain the purpose of "cash discount," and the purpose of "trade discount." What exactly is "banker's discount"? Give an example of the last-named kind.

7. Calculate the following discounts, and show how you arrive at the results—

	£	s.	d.		£	s.	d.
$2\frac{1}{2}$ per cent of	298	12	6	$3\frac{1}{4}$ per cent of	179	4	11
3 " "	347	2	8	$3\frac{1}{2}$ " "	251	16	2
$12\frac{1}{2}$ " "	298	5	4	$17\frac{1}{2}$ " "	142	—	1

8. From what date and for what amount would you draw a four months' bill of exchange for the following items—

5th June, £62 3s. 4d.; 13th, £11 14s. 5d.; 21st, £105 2s. 10d.; 26th, £73 17s.?

9. Describe in detail the routine of preparing creditors' accounts for payment and of making payment of them.

10. What rules would you lay down for the preparation of wages sheets and the payment of wages in a wholesale warehouse?

11. What routine would you insist upon in the keeping of petty cash, the making of payments thereout, and the checking of the payments made?

12. (a) What are the differences between a current and a deposit account at a bank?

(b) For what reasons is the keeping of a current account at a bank general with business men?

13. Describe the formalities of opening a current account at a bank, (a) by a single trader, (b) by a joint-stock company.

14. Explain carefully why cheques are the easiest and the cheapest means of making business payments.

15. In what different ways, and on what different kinds of security can business men obtain advances from their banks ?

16. Explain the differences between a loan account and an overdraft given by a bank.

17. Describe the facilities that the Post Office offers for transmitting money from place to place. Compare the security of the different means of transmission offered, and their usefulness in business, and in private affairs.

18. On which party does the loss fall, as a rule, if money is stolen in passing from a debtor to his creditor ? In what circumstances will the loss fall on the other party ? What precautions can be taken against the documents of payment being cashed by persons not entitled to them ?

19. On 1st March you placed £6,000 on deposit with your bankers. On 10th April you increased the deposit by £3,500, and on 4th May by a further £2,500. On 12th June you gave the bank notice for withdrawal of £5,000 and you withdrew that amount seven days later. The bank credits your current account on 30th June with interest on the deposit at $3\frac{1}{2}$ per cent per annum. How much does the interest come to ?

20. On 1st August you obtained a loan of £4,000 from your bank subject to interest at $5\frac{1}{2}$ per cent per annum. On 18th October you obtained a further £1,250 on the same terms. On 10th December you repaid £3,000 of the loan. How much would the bank charge to your current account for interest on 31st December ?

CHAPTER XII

BUSINESS IN LEGAL FORM

BUSINESS men are not always careful to have their dealings expressed in clear and exact terms. When goods are on view to the buyer at the time of purchase, and when the transaction is completed at once—delivery and payment following immediately on sale and purchase—a clear statement of the terms may not appear essential. But, even then, the buyer may find on closer inspection that the goods are not what he thought they were, nor what the seller held them out to be. He may wish to repudiate the bargain; and for both parties in these circumstances an exact statement of what the contract was will be useful. It will be more necessary still, when delivery or payment, or both, must take place at some future time; also where the goods sold have to be made, or grown, or procured by the seller in the meantime.

THE ELEMENTS OF CONTRACT. 1. Parties' Rights and Obligations. Lawyers use the word "contract" to signify any agreement that the parties who make it intend shall be valid in law. By such an agreement the parties take upon themselves mutual rights and obligations. A buyer, for example, acquires the right to certain goods or services of the seller, and undertakes an obligation to pay the agreed or a reasonable price. The seller makes himself liable to supply the goods or do the work, and he will be entitled to receive payment at or after the time when delivery is tendered or the job is done. These rights and obligations the law will enforce.

2. What Form a Contract May Take. A contract is said to be "express" when its terms have been put into words either spoken or written. It is "implied," when the terms agreed upon can only be deduced from conduct of the parties, other than the speaking or writing of their intentions. Sometimes a contract is expressed in only some of its terms, the remaining terms having to be inferred from the actions of the parties. Again, a contract may be a "simple" or "parol contract"; or it may be a "deed" or "specialty contract," which is one entered into under seal. A deed is the most formal kind of contract in English law, being written,

and "signed, sealed and delivered by" the parties "in the presence of" witnesses. It is used for important agreements that may remain in force for many years, for sales of freehold property, for leases, for mortgages, and commonly for transfers of stocks or shares. A simple contract is one made in any form other than by deed.

3. Consideration in Contracts. Most business contracts are of the simple type made either orally or in writing. It is, however, a rule of English law that no simple contract is valid without *consideration* to support it. That means something must be done, undertaken, or promised on the one side, in return for the promise on the other. Goods supplied now are valid consideration for a promise to pay for them in the future, or payment made now is good consideration for a promise to supply goods sometime hence. If, however, Brown promised to lend Smith £500 for two years, without Smith's giving or promising anything in return, Smith could not hold Brown to his promise, unless he had made it by deed. Had Smith undertaken to pay interest on the loan, that would have served as consideration, on the value of which to Brown, the promise could have been enforced against him. Consideration must be something of present value that the giver is not already bound to give. A past benefit voluntarily bestowed is not good consideration for a present promise; nor would an undertaking to pay an overdue debt, that was still enforceable, be binding consideration for a promise of further credit.

4. Offer and Acceptance Prime Essentials. The legal mind reduces contract to two primary elements, namely, an *offer* made by one party, and an *acceptance* of that offer by the other. The quotation given by a trader may be the offer, and a following order from his customer the acceptance. Or, an order may be an offer to buy, and its acknowledgment by the receiver, or the putting of it into work, will be the acceptance that completes a binding contract. An offer may be made, as by advertisement, to anyone who cares to accept it. On the other hand, it may be made to one person alone; then only that person can accept.

An offer may be *revoked*; that is, it may be recalled or cancelled by the person who made it, provided the other person has not accepted it by the time the revocation reaches him. But, if the person to whom an offer is made gives some consideration for its being kept open for a time, then it cannot be revoked until the time

stipulated has elapsed. An offer or proposal lapses automatically when it has remained unaccepted for a reasonable time, or when the date passes, by which the proposer stipulated for acceptance to arrive. If a person tells you that he makes you an offer of goods "subject," he means that the offer is subject to the goods not having been sold to someone else, before your acceptance reaches him. When that reservation is not made, an offer is said to be "firm."

Acceptance of an offer or proposal *must be communicated* to the proposer, or to his messenger or agent. It cannot then be recalled. If the proposal comes by post, it may be implied that the proposer recognizes the post as the medium of reply. Then the Post Office would be viewed as the messenger of the proposer; and a contract would be complete, not on delivery of the acceptance to the proposer, but on the posting of it by the acceptor. That rule would hold good, even if the acceptance went astray, and never reached the proposer's address.

Further, an acceptance must comply with all the terms put into the offer by the proposer. If a reply is required by return, it must be made by return, or the offer lapses. The receipt of an offer by telegram would imply that an answer was required the same day. If a proposer offers 200 dozen at 19s. the dozen, acceptance must be for that quantity and that price. A reply, stating that the writer will take a less quantity at the same price, or the same quantity at a less price is not an acceptance. It is a counter proposal which cancels the first offer, and which the original proposer may accept or reject just as he likes.

HOW CONTRACTS MAY BE DEFECTIVE. 1. Through Illegality of the Terms. The making of some kinds of contract is prohibited by statute. For example, an agreement for an insolvent person to give a preference to one of his ordinary creditors is void under the Bankruptcy Act. An undertaking to pay workmen in goods instead of in money is void under the Truck Acts.

There are kinds of contract that are bad at Common Law, that is by laws of the land which have never been put into Acts of Parliament. Under this head come some contracts in *restraint of trade*. One of the most usual of that kind is an agreement with a manager or traveller requiring him not to engage, for a specified number of years to come, in another business similar to his employer's,

within a stated radius of his employer's shop or warehouse. Another variety occurs where the vendor of a business is prohibited by the purchaser from taking away the connection by setting up again in the same town or district. In these contracts the test of legality is whether the restraint is reasonable or not. It would be held unreasonable, and the contract would be void, if the restriction were wider than necessary to protect the employer's or the purchaser's interests, or if the restriction virtually deprived the employee or the vendor of the means of earning a living. For a shop in a small town it would usually be unreasonable if the restriction operated beyond the vicinity of the town.

2. Through One Party's Incapacity. In English law an "infant" is a person under twenty-one years of age. By the Infants' Relief Act, 1874, a contract to sell goods to an infant, unless the goods are necessities, cannot be enforced against him, even if he ratifies the contract when he comes of age. The infant can, however, enforce his contract against the other party. Necessaries are food, clothing, lodging, medicine, tools, instruction, and anything required to maintain the infant in his social station. Things that would otherwise be necessities are not necessities, if the infant has already a sufficient supply. Goods sold for use in trading are never necessities.

A joint-stock company, or any other corporate body, cannot make a valid contract for a purpose outside the powers given to the body by its constitution. Any such attempted contract is said to be *ultra vires*, and is void in law. Long ago an English company manufacturing railway plant was stopped from building and working a railway line in Belgium. The building and working of a railway was not one of the "objects," stated in its Memorandum of Association, for which the company had been formed. A municipal tramway, with power to carry parcels on its cars, has been prohibited from using horses and vans to collect and deliver parcels beyond the area of its system. A building society that had carried on banking business was found, on winding up, to have been doing that illegally. If a company were formed for selling groceries, it could not engage in the business of building houses for sale. A necessary connection between the two trades could not be shown to exist. The company would be using, and perhaps losing, its shareholders' capital in activities other than those for which the money had been subscribed.

Every minor transaction, contributory to the invalid purpose, would be void.

3. Through Misrepresentation by the Seller. A buyer may make a mistake about the goods he buys, and may want to cancel the order when he discovers his error. The rule that applies to the case is expressed as *caveat emptor*—let the buyer be on his guard. Provided the seller has done nothing to lead the buyer astray, the latter must stand by the bargain he had made.

Where, however, mistake has been induced by misrepresentation on the seller's part, the rule is different. Blankets known to be of Yorkshire manufacture may not be sold as Witney goods. If they are, the buyer may return them and get his money back when he finds he has been deceived. Suppose a retail draper sold his business representing his annual turnover to be £10,000. If the buyer, who took the shop over on the strength of the representation, found that the sales had never exceeded £6,000 in any year, he would have the right to repudiate the purchase. Or, he could carry on and claim damages from the vendor. Misrepresentation made innocently, unless it is radical to the contract, gives a right to damages only.

4. Through Absence of Writing or Stamp. Certain contracts must be made by deed, for example, mortgages, leases for more than three years, and bills of sale. Certain other contracts for which sealing is not necessary are required to be in writing. These include (1) bills of exchange, (2) insurance policies, and (3) the assignment of a debt from an old creditor to a new one. In the last case notice, also in writing, must be given by the old creditor to the debtor. Writing is required, too, for (4) the guarantee by one person of the debt of another, and for (5) any agreement not to be completed within a year of its being made, as when a manager or a buyer is engaged for more than twelve months. By Sect. 4 of the Sale of Goods Act, 1893, a contract for the sale of any goods of the value of £10 or upwards shall not be enforceable by action—

1. Unless the buyer has "accepted" part of the goods (by doing in relation to them some act which recognizes the contract to buy them), and has actually received them, or

2. Unless he has given something to make the bargain binding, or has made part payment, or

3. Unless some *written note* has been made of the material points of the contract, and has been signed by the party chargeable or by his agent.

Sect. 4 of the Sale of Goods Act does not apply to Scotland. The seller may possess the written evidence necessary for enforcing performance of the contract, whilst the buyer does not. Buyers of goods for future delivery should see that they get the supplier's written confirmation of the order.

Where a stamp is required on a contract, the contract must, of course, be written. Some documents need to be stamped before execution, some either before or after, and some not at all. No stamp is required on a contract, not under seal—

1. For the hire of a labourer, artificer, or menial servant,
2. For the sale of goods or merchandise, or
3. Where the subject is of less than £5 value.

For bills of exchange, insurance policies, transfers of stocks and shares, leases and other conveyances of property, special scales of stamp duty are in force. Where special duty does not apply the value of the stamp on an agreement under hand is sixpence; that for a deed ten shillings. The sixpenny stamp on an agreement may be an adhesive one, if it is affixed before completion and cancelled by the party who signs first. Documents to be stamped after execution are sent to an Inland Revenue stamping office, and the stamps are there impressed. Omission of the stamp, where a stamp is required, prevents a document from being received as evidence in a court of law. For some documents the omission may be made good on payment of a penalty. For others, such as bills of exchange, the omission cannot be remedied, and the unstamped documents are void.

PROVISIONS OF THE SALE OF GOODS ACT, 1893. The consideration for a sale of goods must be a money consideration; it is called the "price" (Sect. 1). If the parties to a sale of goods do not fix the price, the buyer must pay a reasonable price (Sect. 8).

1. Conditions and Warranties. A *condition* in an English contract of sale is a term, express or implied, which is of the essence of the contract. A stipulation ranks as a condition, if failure to comply with it would render the contract useless to the other party. Breach of a condition makes a contract voidable by the party aggrieved (Sect. 11). Time of delivery is not necessarily a condition; but if lateness of delivery makes the goods useless to the buyer, and if the seller knew that it would, then the buyer may reject them. A stipulation in a contract becomes a condition if the contract states

it is so. For example, a clause may be inserted saying, "delivery by the date required is of the essence of this contract."

A *warranty* in an English contract of sale is a stipulation collateral to the main purpose of the contract. Breach of a warranty gives a claim to damages only, and does not give the right to set the bargain aside (Sects. 11, 53, and 62). If I buy an electric washing machine warranted for two years, its breaking down before the end of two months does not give me the right to return the machine, or to withhold the payment. I am entitled to have the washer put into good running order free of charge, or to be paid the cost of getting it put right. A buyer may, if he wishes, waive his full rights; he may treat the breach of a condition as a breach of warranty (Sect. 11).

In a contract for the sale of goods, unless a different intention appears, there are—

1. An implied condition that the seller has the right to sell (Sect. 12);
2. An implied warranty that the buyer shall enjoy quiet possession (Sect. 12);
3. An implied warranty that the goods shall be free from any undisclosed charge in favour of a third person (Sect. 12);
4. An implied condition that goods sold by description shall correspond to the description, and when they are sold by description and sample, they shall correspond to the description as well as to the sample (Sect. 13);
5. An implied condition that goods bought by description and without examination shall be G.M.Q., that is good merchantable quality (Sect. 14);
6. An implied condition that goods shall be reasonably fit for their particular purpose, if the buyer shows that he relies on the seller to supply goods fit for that purpose (Sect. 14);
7. An implied condition that, in goods sold by sample, the bulk shall correspond to the sample in quality, and that the goods shall be free from any defect rendering them unmerchantable, which defect was not apparent in the sample (Sect. 15).

2. When Ownership Passes to the Buyer. It is a rule of law that a buyer cannot, in ordinary circumstances, acquire a good title to goods sold without authority of the owner. The property in goods that have been stolen and sold remains with the person who owned them at the time of theft. Subsequent dealings cease to count on conviction of the thief. (See Sects. 21-24.)

"Property" in goods, or ownership, is not the same as possession of the goods. It is important, therefore, to be able to tell exactly when, in a sale of goods, the ownership passes to the buyer. For with the passing of proprietorship, there also passes the risk of loss through fire, at sea, or from other causes (Sect. 20). From the time when the title to the goods is transferred to the buyer it is for him

to see to their insurance, whether the goods are then in his possession or not. The Sale of Goods Act (Sect. 18) contains the following rules—

1. For specific goods ready for delivery (such as twenty bales of raw wool marked S.B. 211 to 230, and lying at the Port of London), the property passes to the buyer when the contract is made, whether delivery or payment or both be postponed, or not.

2. For specific goods not ready for delivery (such as a second-hand motor wagon or gas engine which has first to be repaired and repainted) the property does not pass until the goods are ready and the buyer is notified that they are ready.

3. For specific goods ready for delivery but requiring to be weighed or measured by the seller, so that he can ascertain the price (such as a stack of coal or a quantity of eggs), the property does not pass until the goods are weighed or measured and the buyer notified.

4. For goods delivered "on approval" or "on sale or return," the property passes to the buyer when he signifies his acceptance of the goods, or when the time fixed for return or a reasonable time elapses.

5. For unascertained or future goods the property passes when goods of the description ordered are unconditionally appropriated to the contract, as when the seller, without reserving the right of disposal, hands to a carrier, for conveyance to the buyer, goods corresponding to the buyer's order.

Right of disposal can be reserved, for example, by the seller addressing the goods to his own order at some railway station, his object being to release them as soon as he receives payment from the buyer. Again, an exporter by procuring bills of lading drawn to his order can control disposal of the goods until he has endorsed one or more of the bills of lading over to someone else.

3. How Delivery Takes Place. Unless the buyer and seller have agreed otherwise, delivery and payment are concurrent conditions of the contract. They are to be made the one in exchange for the other (Sect. 28). Whether the seller has to send the goods, or the buyer has to fetch them, depends on the agreement, express or implied, between the parties (Sect. 29). In the absence of other arrangement the place of delivery is the seller's address, or that at which the buyer knew the goods were lying ready when he bought them; and demand for, or tender of, the goods must be made at a reasonable hour (Sect. 29).

The seller may at his own risk undertake to deliver the goods at the buyer's address, or at any other place the buyer wishes (Sect. 33). Without taking upon himself the risks of transit, he may, at the buyer's request, hand them to a carrier for conveyance to the buyer. Delivery to the carrier would then be deemed to be delivery

to the buyer (Sect. 32). The seller must, however, exercise reasonable care in arranging with the carrier for the carriage of the goods ; and, if they are to go by sea, he must send such notice to the buyer as will enable him to insure them. Otherwise the seller bears the risk himself (Sect. 32).

When the seller delivers a quantity less than the buyer ordered, the buyer may reject the goods, or he may keep them and pay at the contract rate. When delivery is made of a larger quantity than ordered, the buyer may keep the quantity he ordered and reject the rest. He may, however, reject them all, or he may keep all and pay at contract rate. When the goods ordered are delivered mixed with other goods not ordered, the buyer may keep those he ordered, rejecting the others. But he may reject the lot, if he likes to do so (Sect. 30). Unless he has agreed to that course, a buyer is not bound to accept delivery by instalments (Sect. 31). Until he has had an opportunity of ascertaining, by examination, whether goods delivered to him conform to the contract made, the buyer is not deemed to have accepted them (Sect. 34). He will have accepted them when he has intimated his acceptance to the seller, or when he acts in regard to the goods in a way inconsistent with their still belonging to the seller, or when he fails to reject the goods within a reasonable time (Sect. 35). The buyer who rejects goods delivered need not return them ; it is sufficient if he notifies the seller that he refuses to accept them (Sect. 36).

4. When the Contract is Broken. When the *buyer breaks his contract* by failing to pay for the goods, the seller may maintain an action against him for the price (Sect. 49). If the buyer wrongly refuses to accept the goods, the seller may bring an action for damages for non-acceptance (Sect. 50).

Should the *contract be broken by the seller* in failing to make delivery of the goods, the buyer's remedy is an action for damages for non-delivery (Sect. 51). Specific performance, or delivery of the identical article sold, is not usually ordered by the Court, except where the article possesses a value peculiar to itself, as a painting by Turner or Velasquez, a first folio of Shakespeare, or a house in a special situation. When the seller makes a breach of warranty, the buyer may deduct the damages from the price and pay only any balance that remains ; or he may recover damages by an action for breach of warranty.

The *measure of damages* for failure to accept or to deliver is the estimated loss directly and naturally resulting in the ordinary course of events from the failure. The loss is taken as the difference between the contract price and the market price at the time when the goods should have been accepted or delivered (Sect. 50).

5. The Rights of an Unpaid Seller. An “unpaid seller” is one who has not received full payment for goods he has sold, or who has received as conditional payment a bill of exchange that has been dishonoured (Sect. 38). Although the property in goods sold has passed to the buyer, an unpaid seller has the following rights—

1. For goods still in his possession, a *lien on the goods* for the price, that is a right to retain possession of them until he is paid, if credit has not been agreed to, or if the buyer has become insolvent (Sect. 41).

2. A right to *stop the goods in transit*, if the buyer has become insolvent, and the carrier or other person in custody of the goods, on receiving notice of stoppage in transit, must redeliver the goods to the seller (Sects. 44–46).

3. A limited right to *resell the goods*, when the goods are of a perishable nature, or when the buyer does not pay for them within a reasonable time of his being notified of the seller's intention to resell (Sect. 48).

THE LAW REGARDING PAYMENTS. We have already noticed that the risk of loss in the post falls on the sender, the Post Office being deemed the messenger of the sender, except where the creditor has asked that payment should be sent to him in that way. Such a request may be inferred from circumstances, as when the creditor asks a debtor in a distant town to send a cheque or remittance by return. It will not be inferred merely from a series of previous remittances received by post without objection.

On demand being made, it is the debtor's duty to seek out his creditor and tender payment to him. In tendering payment the debtor should produce and offer the amount he considers to be due. Should that amount be disputed and refused he must remain ready to pay. When an action is begun against him, he should pay into Court the amount he tendered to the creditor. That will cause the plaintiff to bear all costs, unless he succeeds in getting judgment for a higher amount.

Payment of a debt or purchase must be made in *legal tender*, if the creditor or seller requires payment in that form. Legal tender in England is Bank of England notes for any sum *over* £5 (unless tendered by the Bank or its branches), currency notes and gold coins to any amount, silver coins up to 40s., and bronze coins up to 1s. In

legal tender the exact sum should be offered, as the receiver is not obliged to find change. It is seldom in business that legal tender is insisted upon. Cheques, bills of exchange, bank notes of other kinds, postal orders, or silver to a higher amount than 40s. are valid tender of payment, unless they are refused at the time and legal tender demanded.

Whenever a receipt is given for £2 or more, the receipt must bear a twopenny revenue stamp, and if the stamp is an adhesive one it should be cancelled before issue. There are exceptions to this rule, one of which is that a stamp is not required on a receipt given for wages or any similar payment. Omission of the stamp, where one is necessary, renders the giver of the receipt liable to a penalty not exceeding £10; and the holder of the unstamped receipt would not be allowed to use it in Court, as evidence of payment having been made, until it was stamped and the fine was paid. Payment of an insufficient amount, when tendered in full settlement, may be retained without prejudice to the creditor's claim for the balance, if he makes it clear on the receipt or on an accompanying letter that he accepts the money in part payment only.

By the *Statutes of Limitation* any action arising out of simple contract must be commenced within six years after the date when the cause of action arose. Cause of action would arise at the time when a contract was broken. For contracts under seal, unless they relate to land, the time is twenty years. Right of action on a statute-barred debt will be revived by (a) payment of part of the debt or of interest, or (b) a signed promise to pay, or a signed acknowledgment that implies a promise to pay. The six years or twenty years begin anew from the date of payment or promise. They do not run during any time that the debtor is an infant or is insane; and, if the debtor left the country before cause of action arose, they will not begin to run until he returns.

The law recognizes certain rules about *appropriation of payments*. When a debtor pays only part of the sum he owes, the question of which items the payment settles will be important, if a portion of the debt had become, or is likely to become, statute barred. The rules are these—

1. A debtor who owes an account of two or more items has the right, when he makes a payment, to say to which item or items the payment shall be appropriated.

2. Failing appropriation, express or implied, by the debtor, the creditor has the right to set the payment against any of the items owing to him.

3. In the absence of appropriation by either debtor or creditor, the law presumes that discharge of the items takes place according to the order of their dates beginning with the earliest.

POSITION AND AUTHORITY OF AGENTS. An agent is a person who acts for another person, named his principal, in such manner that he makes a contract between his principal and a third person. In wholesale and retail trade buyers and salesmen are agents for their employers. But every agent is not an employee of his principal. We have seen that the selling agent of a manufacturer is very often in business for himself. Bankers collect and pay cheques as the agents of their customers, and solicitors may act as the agents of their clients. Stockbrokers and produce brokers are agents because they buy and sell for others. A dealer, as distinct from a broker, buys and sells for himself. Partners are agents for each other in conducting their firm's business, and wives are agents for their husbands when they buy goods for the house. Such employees as carpenters and book-keepers are not agents, because they do not make contracts between their employers and other persons.

A person who makes a contract in the name of another must have that other person's authority to make it. Unless he has authority the contract will not be binding on the person named as principal. The person with whom it was made can look only to the self-styled agent for performance or, failing that, for damages. But a so-called principal may adopt or ratify a contract that has been made in his name without authority, and so become liable for its performance. It rests with the person dealing with an agent to satisfy himself that the agent has authority. But authority may be implied from the principal's conduct—for example, from the owner of a business leaving a person in apparent charge of a saleroom, or from his having allowed a servant on previous occasions to make credit purchases in his name.

Again, if an agent does not disclose the name of his principal, and does not make it clear to the other party that he is acting as an agent only, he can be held liable on the contract himself. It would be unfair that a contracting party should be compelled to look for performance of his contract to someone whose connection with the contract he knew nothing of. Still, he can choose to look to the newly disclosed principal for satisfaction, if he prefers to

do so ; but, in that case, he must abandon his claim on the agent. Further, an undisclosed principal can come forward and claim the benefit of the contract his agent has made. Then, however, the other party may deduct, from payment to the principal, any sum, owing by the agent, that could have been deducted by the other party in making payment to the agent.

In carrying out his duties to his principal the agent is required to use ordinary care or diligence ; but the circumstances may be such that he is expected to exercise special skill. Negligence on his part will render him liable to the principal for damages. As a rule an agent has no power or authority to delegate his duties. An agent must account to his principal for all profits made by him as agent. It is illegal for the agent of a buyer secretly to take for himself a commission from the seller. It is also against the law for one person, A, to represent himself to another person B, as B's buying agent, when A is, in fact, selling to B A's own goods or other property. An agent's authority ceases on the death or bankruptcy of his principal, or by notice of termination of the agency given by either party to the other, or by the running out of the period for which the agency was created. On the termination of an agency from the two last-named causes, the principal should notify all persons who have been accustomed to deal with him through the agent. That will prevent the principal from being held liable on contracts made with the agent after the agency has ceased.

SOME GOVERNMENT REGULATIONS. The warranty placed on the invoice shown on page 99 is required by the buyer of the goods as a protection for him under the Sale of Food and Drugs Act, and particularly in regard to regulations issued under these Acts by the Minister of Health. These Acts and others deal with the purity and quality of the foods supplied. They impose penalties for adulteration, as when water is sold in milk ; or they require labels and tickets to be used, so that margarine, for example, may not be passed off as butter. They restrict or prohibit the use of preservatives, and colouring and thickening ingredients, as in jams, sauces, and cream.

Under the provisions of the Weights and Measures Act, 1878, the scales, or other weighing appliances, and the measures that traders use are subject to inspection by the local authority. It is an offence for a trader to use for trade weights and measures that

have not been officially stamped, or that have ceased to be true weights since they were stamped. To a few commodities, such as bread and coal, special regulations apply regarding weight or measure. Coal must be sold by weight; and, where the quantity delivered is over two hundredweights, a ticket showing the correct weight must be handed to the purchaser before any of the coal is unloaded.

The Truck Act of 1896 prevents employees, such as shop assistants, from suffering deduction of fines from their wages, unless they have signed an agreement that fines may be deducted in certain circumstances. Even then the fines must be reasonable. The Shop Acts regulate the hours of shops and shop assistants. They provide, amongst other things, for an early closing day every week, or for some equivalent to the employees where early-closing regulations need not be observed. Workrooms and workshops, attached to retail or wholesale establishments, come under the Factories and Workshops Acts in regard to hours, holidays, accidents, inspection, and other matters. Under the Workmen's Compensation Acts employers are liable to pay compensation for death or injury occurring to workpeople in the course of their employment—a risk against which employers usually insure.

QUESTIONS

1. What differences are there between a "deed" and a "simple contract"; also between a contract that is "expressed" and one that is "implied"?

2. State what you know about consideration, and about its necessity or otherwise in contracts under English law.

3. (a) What is the meaning of the term "contract" used in the legal sense? What elements are essential to the making of a valid contract?

(b) Give an example of a "counter offer," and state what effect it has on the original offer.

4. (a) What is meant by "keeping an offer open," and how can a person legally require an offer to be kept open?

(b) What is a "firm offer"? How would you prevent an offer made by yourself from being a firm offer?

5. (a) For revocation of an offer to be effective, how must it be made?

(b) How and when will an offer lapse?

6. How and when does an offer become legally accepted? How is the rule applied to acceptance made through the post?

7. (a) Explain, giving illustrations, how a contract may be invalid because of the incapacity of one of the parties to it.

(b) What is meant by the term " necessities " as used in the law of contract ?

8. (a) What is the legal position of a person who has been induced to enter into a contract by misrepresentation made by the other party ?

(b) When would a court of law find that a contract was unduly in restraint of trade ? What effect would the finding have on the contract ?

9. (a) Name four kinds of contract that cannot be enforced unless the contracts are in writing.

(b) If a contract is subject to stamp duty, what is the effect of omission of the stamp ? What contracts are free from stamp duty ?

10. A business man has given a written order for £500 worth of goods to be delivered to him six months hence. The order has been accepted by telephone, but not in writing. Explain carefully the legal position of each party, if the other party fails to complete the contract.

11. (a) What is the difference between a condition and a warranty in a contract ?

(b) Name one warranty and three conditions that are always implied in a sale of goods.

12. What are the rules that, in a sale of goods, determine the time when the property in the goods passes from the seller to the buyer ? Why is it necessary or desirable to have the exact time fixed ?

13. State the rules that are given in the Sale of Goods Act about (a) time and place of delivery of goods ordered, and (b) delivery of wrong quantities, or delivery by instalments.

14. Explain the rights given by the Sale of Goods Act to an unpaid seller of goods.

15. (a) What are the rights of a seller of goods against a buyer who has broken his contract (i) by non-acceptance, and (ii) by non-payment, of goods delivered ?

(b) What rights has the buyer against a seller who fails to deliver goods he has contracted to sell ?

(c) What are the damages that each party can recover, when he has a right to damages for breach of contract by the other ?

16. Is it the creditor's duty to collect payment of money owing to him, or is it the debtor's to send it ? Show how your answer applies when payment has been lost in the post.

17. Explain fully what is meant by Bank of England notes being legal tender for any amount. What other forms may legal tender take ? What should the debtor do in a case of dispute with his creditor about the amount of the debt ?

18. How do the Statutes of Limitation affect accounts owing in business ? In what circumstances are the statutes inoperative ?

19. (a) What are the legal rules for appropriation of payments when a debtor pays one or some, but not all, of the amounts he owes to a creditor ?

(b) What rules govern a creditor's right to charge interest on a debtor's account ?

20. What is an " agent " in the legal sense ? What is the position of a person who has entered into a form of contract through another person who has falsely represented himself as an agent ? How can an agent's authority be implied ?

21. When you deal with an agent who is not known by you to be an agent, what is your position in regard to (a) the undisclosed principal, and to (b) the agent ?

22. What is the nature of an agent's duty to his principal ? How can the relationship of principal and agent be terminated ? What steps is it prudent for the principal to take when the agency ceases, and why ?

CHAPTER XIII

THE RESULTS OF THE TRADING

LEAVING now questions of principle and of function, of organization and of routine, we propose to consider the *results* that a business shows. By "results" we mean here the results to the proprietor; and this is the view of the business activities that most closely touches the proprietor's interest. Every business, it is true, has for its purpose the supply of some part of the needs of the community around. But the proprietor's interest in that purpose is maintained or lost according to the results that the business yields for himself. The proprietor must live. His living may be bare, or it may be abundant. Even where he takes the keenest interest in the functioning of his business for the public benefit, he cannot keep it going if he fails to extract from it the means of satisfying some modicum of his personal needs.

THE TRADER'S INTEREST IN HIS TURNOVER. A trader measures his success day by day, and week by week, through his "turnover," that is, by the extent of the sales he has completed and charged out. Success in the form of profits does not, of course, depend entirely on the volume of the turnover. But it should depend more on the size of turnover than on anything else. It is true that sales may not always spell profits. Now and again it may be good policy to dispose of goods at a loss, in order to release, for profitable trading in other goods, the capital absorbed by stocks that will not sell, or will not sell quickly, except at a loss. Profits are the final measure of success from the trader's personal point of view. A business, however, is organized as a whole; and the clear profit on any single transaction cannot usually be ascertained, because its share of general expenses cannot be allocated accurately to it. And, that being true at the end of a trading period, it is truer still at the time when each sale is made. From day to day, therefore, and from week to week, the business man measures his results by his sales. He knows that, ordinarily, his selling prices are fixed to include a profit; and he knows that the margin of profit included is one which

experience has taught him will be more than sufficient to meet all his usual charges.

Day by day the trader can, in a way, measure his results by the value of the orders he receives. Or, day by day, week by week, and month by month, he can measure his results by the value of the orders he has executed, that is, by the total of the sales his books record. He will keep in mind the value of orders on hand, if for any special reason he has on hand an exceptional number of orders waiting execution. Daily figures for orders received and for sales charged out are not, however, good and reliable guides. The single day is too short a period to be taken as showing the trend of business. Figures vary much one day with another. Weather conditions affect daily trade greatly in the retail, and a continuation of good or bad weather is soon reflected in the wholesale. Weekly figures allow a little more time for the average result to work out. To give a good average, monthly returns would be better ; but no keen business man will wait till monthly totals are completed. He must learn the trend more quickly. By waiting unconcernedly until each month was closed, he would let the opportunity slip by for taking action with effect. In the retail some attraction could probably have been set going to draw the public to the shop ; in the wholesale some special offer of passing benefit might have been put in the travellers' hands, as a means of procuring orders from the shop-keepers. The best guide for the trader is probably a table of weekly sales continually kept up to date. It would start with the first week or part week of the trading year or half-year, and would have each succeeding week's figures added as soon as they were made up.

Comparisons of this year's with last year's figures are informative, and are usually made by business men. Comparison with last year but one is also useful, particularly if last year was specially good or bad. Such comparisons are, however, subject to allowance for difference in prices ruling one year with another. They are subject to allowance for different weather conditions, for the state of trade generally as between two years, and for the positions in the calendar that the usual bank holidays occupy in each year. They are also subject to the incidence of Sundays, as when April one year contains five Sundays, whilst another year it has only four. Saturdays, too, should be taken note of. For some businesses Saturday is the best

day of the week, and for others it is the worst. Where the business is a departmental one the table of weekly sales should show each week the total for the whole business, and what portion of the total belongs to each department. An example is given on page 180.

THE YEARLY PROFIT AND LOSS ACCOUNT. On this page we submit a specimen of a trader's annual Profit and Loss Account drawn up in the usual debit and credit form.

TRADING AND PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31st DECEMBER, 19..

	£	s.	d.		£	s.	d.
Stock 1st January	20,103	4	9	Sales	71,270	2	4
Purchases	47,628	10	2	Stock 31st December	19,014	15	6
Workroom wages	2,750	8	8				
Gross profit carried down	19,802	14	3				
	£90,284	17	10		£90,284	17	10
Shop wages	6,305	17	—	Gross profit	19,802	14	3
Advertising	5,767	8	9	Discounts received	1,588	4	3
Rent, rates, and taxes	1,849	2	11				
Light and heat	940	19	—				
Carriage	621	10	4				
Stationery and printing	574	—	10				
Sundry expenses	896	3	1				
Bad debts	320	11	7				
Depreciation	481	9	5				
Net profit	3,633	15	7				
	£21,390	18	6		£21,390	18	6

On page 165 the same account is shown with the preceding year's figures included for comparison, with the percentages of profits and expenses worked out on the sales or turnover of each year, and with the shillings and pence omitted. When last year's and percentage figures are to be included, the tabular form reduces the account to more convenient size. Taking each item at its nearest number of round pounds, and disregarding all shillings and pence, render the presentation clearer, without omitting anything worth keeping.

THE GROSS PROFIT OF A TRADER. In a trading business, as distinct from a manufacturing concern, the first section of the Profit and Loss Account is called the "Trading Account." As is seen more clearly in our tabulated form of the account, it deals only with goods sold or held for sale. Its purpose is to show—

1. The selling value of the total sales of the period ;
2. The cost of the total sales, and
3. The excess of their selling value over their cost, which excess is known as "gross profit."

Opening and closing stocks of the period must be taken at not more than their cost price, because they are brought into the account solely for the purpose of arriving at the cost of the goods actually

COMPARATIVE TRADING AND PROFIT AND LOSS ACCOUNT

Year ended 31st December, 19..	This year		Last year	
	£	per cent	per cent	£
Opening stock	20,103			19,835
Purchases	47,629			44,701
Workroom wages	2,750			2,663
Cost of goods available for sale	70,482			67,199
Less closing stock	19,015			20,103
Cost of goods sold	51,467			47,096
Gross profit on Sales	19,803			19,266
Sales for the year	71,270	100·0	100·0	66,362
Shop wages	6,306	8·8	9·1	6,036
Advertising	5,767	8·1	8·8	5,860
Rent, rates, and taxes	1,849	2·6	2·8	1,843
Light and heat	941	1·3	1·4	934
Carriage	622	0·9	0·9	602
Stationery and printing	574	0·8	0·9	580
Sundry expenses	896	1·3	1·4	905
Bad debts	321	0·4	0·4	297
Depreciation	481	0·7	0·8	503
Gross expenses	17,757	24·9	26·5	17,560
Less discounts received	1,588	2·2	2·3	1,492
Net expenses	16,169	22·7	24·2	16,068
Net profit for the year	3,634	5·1	4·8	3,198
Gross profit as above	19,803	27·8	29·0	19,266

sold, and so at the gross profit which the figure for total sales includes. But, if the purchase value of the closing stock has fallen since the goods were bought, they should be brought into the account at their present cost to buy. The loss in their value will, in that way, be charged to the period of trading in which it occurred ; and

loss in value through stock being soiled or out of date must be allowed for similarly. Workroom wages, appearing in this section, represent the cost of productive labour which has been put into some of the goods that have been sold, and which is included in their selling price. These wages are, therefore, a part of the cost of the sales of the period, and that is why they are brought in here. The value of stock on hand is ascertained from an inventory made from inspection of the goods. The purchases, sales, and wages figures for the period are taken from accounts kept under these heads in the trader's ledgers.

If the closing stock of a period were brought into the Trading Account at selling value, that would cause the gross profit shown for the period to include an expected profit on goods that had not been sold. These goods might never be sold, and so a profit on them might never be realized. If a profit were realized, it would belong to the trading period in which the sales were made, and in which the expenses incidental to making the sales were incurred. The gross profit of a Trading Account is the difference between the cost and the selling price of goods *that have been sold*. A trader usually arrives at the selling price of an article by adding to its cost an amount that represents a given percentage of the selling price. A retailer, for example, buying boots at 18s. 9d. a pair and aiming at a gross profit of 25 per cent of selling price, would mark the boots to sell at 25s. the pair. The gross profit realized by a trader, as shown by his Trading Account at the end of the year, should be the aggregate of all the single gross profits he provided for in fixing the selling prices of the many separate articles he has sold throughout the year.

The gross profit of the Trading Account would be that aggregate, if the trader were successful in selling all his goods at the prices he had fixed. But, because of reductions in selling price, for clearing out stocks hanging on his hands, and for speeding up slackening trade by the announcement of cheap sales, he does not always get in the end the prices that he wanted. Nevertheless, the percentage that a year's gross profit bears to the year's total sales is valuable to a trader for comparison with the rate he aimed normally to get. From our specimen Trading Account we may assume that the proprietor of that business works with a gross profit in view of about 30 per cent of selling price, and that the lower rate realized is due

to causes such as we have named. Were an excessive decrease shown in the percentage realized, the trader would set on foot inquiry into the cause. Provided the figures of the Trading Account had been correctly prepared, an excessive decrease would mean either that goods were going out without being charged, or that his salesmen were habitually selling goods without getting for them the full and proper price.

EXPENSES AND NET PROFIT. Gross profit is not a profit in the sense of an actual gain that can be pocketed by the trader. As already explained, it is merely the margin between the cost price of goods and the selling price realized. Out of that margin the trader must meet all the expenses incurred in carrying his business on. Rent must be paid to the landlord, wages to assistants, bills for advertising, electric light, and so on, as shown in the second portion—the Profit and Loss section—of our specimen account. Only after meeting all such expenses as are justly chargeable to the period can there be any clear profit actually left. If any of the margin in price does then remain, it is called “net profit.” It belongs to the trader himself, being his remuneration for using his money, ability, and energy in the business. Should, however, expenses exceed gross profit, the excess would be a “final loss.” It would mean that the expenses of the period had swallowed up, not only all the margin of selling over purchase price, but a slice of the trader’s capital as well.

Our example shows that, out of a gross profit this year of 27·8 per cent of sales, expenses have absorbed 22·7 per cent, leaving a net profit for the trader of 5·1 per cent on his turnover. In the year before the corresponding rates were 29·0, 24·2, and 4·8 per cent. That is not to say that 5 per cent, approximately, is all the proprietor gets on the capital the business uses. He could get so much by investing his money, without working in addition for a return. In a healthy business the turnover should usually be much greater in amount than the capital employed. Our example shows some £20,000 absorbed in stocks of goods. We may assume, however, that £4,000 of that amount—representing about one month’s purchases—is owing to creditors for goods. If to the £16,000 remaining we add £8,000 for capital sunk in book debts, £7,000 in fixtures, furniture, and fittings, and £4,500 in a lease, we get a total proprietor’s capital of £35,500, just about half of this year’s turnover.

A net profit of 5·1 per cent of turnover would, therefore, work out at 10·2 per cent on the capital we assume that the proprietor has.

HOW PERCENTAGES ARE USEFUL. This year's gross profit shown in the Trading Account should, we have said, be the aggregate of the single gross profits included in the selling prices of all the year's sales. We do not, however, add together all the single profits provided for, when we want to see if their total corresponds to the gross profit of the Trading Account. We work out the gross profit of the year to a percentage of the sales of the year. Then we can tell whether the rate it shows—for the whole business or for any department—approaches nearly or not to the rate that the trader set out to earn.

In our specimen account we have this year a gross profit of £19,803 on a turnover of £71,270, as against a gross profit last year of £19,266 on a turnover of £66,362. It is plain at once that this year has yielded a larger amount of gross profit than last ; but, to the ordinary mind, it is not instantly clear, from these figures alone, which year shows the higher *rate* in proportion to its turnover. From these figures alone it is still less clear by how much the higher rate is better than the other. In regard to the net profits of £3,634 and £3,198 the same questions arise ; and they arise again in the comparison, this year with the year before, of each head of expense. The chief use of percentages in an account like this is to make the comparisons perfectly plain. By reducing this year's net profit to £5·1 in every £100 of sales this year and last year's net profit to £4·8 in every £100 of sales last year, we place the two years' results on the same basis. Then we see at once that this year's is the better rate ; and we see also how much better it is, namely 0·3 per cent, or six shillings more net profit in every £100 of turnover.

It does not follow, however, that the higher rate is always the better *result*. Looking again at the gross profits in our example, we find that the higher rate of 29·0 per cent of last year gave only £19,266 gross profit, or £537 less in amount than this year's lower rate of 27·8 per cent yields on this year's larger turnover. Had our rate of net profit been the same this year as last, it would still have given us an amount of net profit larger than last year's—but larger in that case by only £223.

THE HANDLING OF PERCENTAGES. One of the first things a

trader has to learn, in dealing with percentages of gross profit, is that a given percentage of selling price is not the same in money as a similar percentage of purchase price or cost. Suppose a trader bought a quantity of goods for £360. To make a gross profit of 20 per cent of selling price he would have to sell the goods for £450, or an increase of 25 per cent of his cost. To sell them at a gross profit of 25 per cent of selling price, he must charge £480, or an increase of $33\frac{1}{3}$ per cent on cost. Let us assume that the trader had fixed the selling price at £450, but that the goods did not sell. Remembering that he added 25 per cent to their cost, he hastily concludes that he can part with them at a discount of 25 per cent off selling price, without suffering any loss. The 25 per cent he had added to cost was £90; but the 25 per cent he now deducts from selling price is £112 10s. Should he effect a sale at that reduction before discovering his mistake, he would lose £22 10s.

It is the practice of traders to calculate their profits or prospective profits on the selling value of their goods, or, as they would say, "on the return." That practice has no doubt become general because of its convenience to the trader. It is on the sales a trader effects, and not on the purchases he makes, that his profits depend. The total of his sales, or the selling value of the goods he has sold over a period, is already known to him, or is quite easily ascertained. On the other hand, as our tabular account clearly shows, the ascertainment of the cost of the goods sold during the period necessitates the taking of stock and adjustment of the purchases total, by the difference between opening and closing stocks. For single transactions also, it is more convenient for the trader to describe his gross profit as a percentage of selling price. A business man may have in stock some 200 articles priced for sale at 6s. 11d. each, and he may want to offer them to a waiting customer at a reduction in order to clear them out. Knowing that he has a margin between cost and ordinary selling price of approximately 20 per cent of the latter, he can offer them at once with $12\frac{1}{2}$ per cent off selling price, and see plainly that he has still a $7\frac{1}{2}$ per cent margin left, namely 6d. on each article, or £5 on the lot. Had his margin been worked out as a percentage of purchase price, the reduction he could offer off selling price would have needed some calculation, which would have been a hindrance to his giving the customer a price right off. Readers not already familiar with this difference between a percentage of

cost and a percentage of selling price should study the following table—

CORRESPONDING RATES OF GROSS PROFIT
ON COST AND ON SELLING PRICE

10 per cent or $\frac{1}{10}$ th of selling price	=	$\frac{1}{11}$ th or 11·1 per cent of cost
12½ „ „ $\frac{1}{8}$ th „ „	=	$\frac{1}{9}$ th „ 14·3 „ „
15 „ „ $\frac{2}{5}$ ths „ „	=	$\frac{1}{7}$ ths „ 17·6 „ „
16⅔ „ „ $\frac{1}{6}$ th „ „	=	$\frac{1}{5}$ th „ 20 „ „
20 „ „ $\frac{1}{5}$ th „ „	=	$\frac{1}{4}$ th „ 25 „ „
25 „ „ $\frac{1}{4}$ th „ „	=	$\frac{1}{3}$ rd „ 33⅓ „ „
30 „ „ $\frac{3}{10}$ ths „ „	=	$\frac{2}{7}$ ths „ 42·9 „ „
33⅓ „ „ $\frac{1}{3}$ rd „ „	=	$\frac{1}{2}$ „ 50 „ „
40 „ „ $\frac{2}{5}$ ths „ „	=	$\frac{2}{3}$ rds „ 66·6 „ „
50 „ „ $\frac{1}{2}$ „ „	=	1 „ 100 „ „

For ascertaining, in a Profit and Loss Account, what percentage a given item of profit or of expense bears to sales, the rule is—

Profit or Expense $\times 100 \div$ Sales = Percentage required.

EXAMPLE 1. If a trader makes a gross profit of £65 on a turnover of £250, then—

1. His gross profit is 65/250ths of his sales.

2. „ „ „ on £100 = 65/250ths of £100

$$= \frac{65 \times 100}{250} = 26 \text{ per cent.}$$

EXAMPLE 2. The net profit of £3,634 on a turnover of £71,270, as shown on page 165, is worked to a percentage of profit to turnover, thus—

$$\frac{3634 \times 100}{71270} = \frac{36340}{7127} = 5.098 = \text{approximately } 5.1 \text{ per cent.}$$

DISPELLING SOME ILLUSIONS. 1. We have just explained how it is the rule in trade to calculate gross profit as a percentage of *selling price*. The same method is used for percentages for net profit, and for heads of expense in a Profit and Loss Account. A trader would unnecessarily complicate the statement of his results, and would set out deliberately to make his figures confusing to himself, if he calculated some of them on turnover and some on cost; or if he calculated them on turnover sometimes and on cost at other times. Students are led away from reality when, for example, they are given for the same periods, and without any suggestion that it is contrary to practice, percentages of gross profits taken on cost and percentages of expenses taken on selling price.

2. By "gross profit" the practical business man means the full excess of selling price over cost, and he means that whether he refers to the gross profit on a single article or on a year's trade. A dealer, who gets a trade discount of $12\frac{1}{2}$ per cent on a motor-car listed at £750 retail, would have a gross profit £93 15s. on the sale. Commission allowed by him to his salesman would not reduce his gross profit by one penny. The commission would be one of the several selling expenses of the business, to be allowed for from gross profit, before the net or clear profit on the sale could be estimated. A commission of 2 per cent to the salesman would be calculated on the *selling* price, and would be £15.

3. The allowance by wholesalers to retailers of "trade discount" is not the normal procedure in practice. Much more usual is it for the wholesale price to be fixed without trade discount, and for the retailer to make his own selling price. Trade discount is used sometimes, when a manufacturer charges a retailer with goods, the price of which the manufacturer has fixed to the public; but it is not always used then.

4. It is not at all usual for a trader to find the net cost of an article by deducting from its purchase price the rate of cash discount his supplier will allow him when he pays. If he did that the question would arise, in estimating gross profit, whether he should not take into consideration the cash discount he would allow his customer on payment for the article after it had been sold. Usually both these discounts are disregarded in providing for gross profit to be earned, or in calculating what gross profit has been earned on a period of trading. Both discounts are allowed to fall in amongst the expense items of the Profit and Loss Account, the one increasing, and the other decreasing, the total expenses of the period. To alter the gross profit of a trader's annual accounts, by deducting cash discount from the cost of his goods or by adding carriage inwards and delivery charges to the cost, spoils for him the comparison, at the year's end, of the rate of gross profit actually obtained, with the rate he set out to get. That comparison cannot, however, be made by the manufacturer, whose costs include not only materials bought, but productive wages and manufacturing expenses of many kinds.

5. A trader does not alter the selling price of goods *in stock* in strict accordance with the rise and fall, whilst he holds the goods,

of the price at his source of supply. We may ask what will be a retailer's final selling price of an article that cost £2 10s. (a) if the retailer keeps his stock marked at 60 per cent above current wholesale price, and (b) if the wholesale price rises 20 per cent, falls 10 per cent, rises 4 per cent and falls 15 per cent, before the article is sold. The question has, however, little relation to practice in the retail trade. Shopkeepers, no doubt, take some advantage, when they can, of a rise in wholesale prices; but often enough they offer part of the difference to their customers, and so seek a reputation for selling cheaper than competitors can.

6. No trader can ascertain the amount of his gross profit for a year by taking a percentage of either the cost or the selling value of the year's sales. Before he can learn what is the percentage ratio of gross profit, either to selling or to cost value of his turnover, he must find what the amount of gross profit is. Nor can he ascertain his net profits for a period by deducting a percentage for expenses from the gross profit of the period. Before he can learn what percentage to deduct, he has to find what the total of his expenses is. Whether dealing with profits or expenses, he finds the percentage from the amounts, and not the amounts from the percentages.

All such questions as the foregoing may be excellent mental exercise in applying arithmetical rules to imaginary cases. But they mislead students, who do not know better, into believing these are operations that the framers of business accounts and statistics habitually perform.

WHEN COMPARISONS ARE DECEPTIVE. Comparisons of gross profits in the strict sense are always reliable, provided the figures for stocks, purchases, and sales (from which figures the gross profits are calculated) are accurate. For example, the gross profits of each of a number of departments, or of each of a number of shops, may be compared month by month, and the impressions gained from noticing their differences will be true. The comparisons of gross profits are completely reliable because gross profit is merely the difference between cost and selling price of the *same goods*. A considerable variation in percentage means, therefore, a variation in selling or in cost price, or a leakage in stocks which calls for immediate attention. Also in dealing with certain expenses, such as carriage, packing materials, stationery used, and cash discounts, comparisons should be reliable over a period of sufficient length,

because these expenses should vary consistently with the quantity and value of the turnover. Wages for productive labour also rise and fall in proportion to the quantity of goods made ; but there is a more or less definite minimum below which they cannot go, so long as the framework of the producing organization is maintained.

In dealing with net profits, however, comparisons do not, on the surface, show what the full truth is. Net profits are arrived at by deducting from gross profits the expenses of the period. And some of these expenses are the same in amount year in and year out, no matter whether the turnover increases or declines. Rent, for example, remains stationary over a number of years whether sales are high or low. Rates vary a little, but their variation is not in harmony with that of sales. The same is true of light and heat. Advertising should bring more orders, if more is spent upon it ; but whether the increase in sales will be proportionate to the increase in advertising cost is problematical. In many trades the effect of advertisement varies with the season of the year, and with the weather of the season. Selling wages may remain almost the same, with an increase in business up to the point at which present staffs are unable to cope with the growing volume of trade. Depreciation is usually calculated in relation to the cost of the fixed assets to be depreciated, and it has little direct relation to the turnover of goods.

Comparisons of net profits, therefore, one period with another, should be made with the effects in mind that are caused by variation in turnover against expenses that are fixed. These effects are particularly noticeable when the average turnover is small and the period of comparison short. A small shop may sell on the average some £460 worth of goods a month, at a gross profit roundabout $27\frac{1}{2}$ per cent. That will give a gross profit of £126 in amount. If wages are £15, rent, rates, and light £55, and other expenses normally £26, these will leave the net profit of an average month as £30, or $6\frac{1}{2}$ per cent of sales. But, in a winter month when trade was dull, the sales might fall to £410, with a gross profit of £112. If at the same time the extra charge for winter light and heat and, perhaps, some exceptional necessary repairs increased the expenses by £10, that would reduce the net profits to £6 only, or less than $1\frac{1}{2}$ per cent of sales. In still worse conditions profits might disappear entirely

for a time. The figures in such circumstances would not be representative. The smallness of the turnover, the shortness of the period, and the decline in turnover being accompanied by an accidental increase in expense, would cause comparison with other months to yield a worse impression than was warranted by the facts. A larger shop would show the effects of these variations less.

Sometimes, with the object of making sure that stocks are not taken at too high a value, a fixed percentage is deducted from the value of stocks at the end of each trading period. A difference in the size of opening and closing stocks then makes a difference in the amounts deducted from them. That difference reappears in the gross profit of the period, and vitiates comparisons of rates of gross profit one year with another. The effects of such a practice are plainly shown by the following examples. In the first example 10 per cent has been deducted from opening and closing stocks of different size; in the second the same figures are used without the 10 per cent deduction being made.

EXAMPLE 1.

Opening stock	£ 2,000	Closing stock	£ 1,000
Less 10 per cent	200	Less 10 per cent	100
	<hr/> 1,800		<hr/> 900
Purchases	9,000	Sales	12,000
Gross profit 17·5 per cent of sales	2,100		
	<hr/> 12,900		<hr/> 12,900

EXAMPLE 2.

Opening stock	£ 2,000	Closing stock	£ 1,000
Purchases	9,000	Sales	12,000
Gross profit 16·7 per cent of sales	2,000		
	<hr/> 13,000		<hr/> 13,000

Again, it is a common practice to transfer goods between departments with a small percentage added to cost price. Variation in the volume of transfers between two periods affects comparison of rates of profit, unless the smaller percentage on the transfers is taken into account in calculating the rates. Similarly where sales

are made partly at retail price, and partly at a reduced price to small traders, variation in the ratio of the two kinds of sales will spoil comparison of periodical gross profits, if the sales are not divided and separate rates worked out. The object of the comparisons we have been explaining is to render possible detection of wrong tendencies in the working of the business. Care should, therefore, be taken to get the basis of comparison as accurate as is practicable.

QUESTIONS

1. What is the "gross profit" of a trader? Show by means of imaginary figures how a trader ascertains what gross profit he has made during a trading period.

2. How can a trader make clear comparison between the gross profit earned in his last year of trading and that earned in the preceding year? How can he tell whether the gross profit earned during a period corresponds to the margin he allowed in fixing selling prices?

3. Discuss and contrast the usefulness to a business man of comparing daily sales one year with another, and of comparing weekly and monthly sales in the same way.

4. From the figures supplied below show to two decimal places the rate of gross profit of each year as a percentage of that year's turnover.

Year	Turnover £	Gross profit £
1930	102,356	27,536
1931	115,290	29,908
1932	110,847	29,475
1933	117,161	29,970

Show how you ascertain what rate of gross profit has been earned for the whole period of four years.

5. What do you understand by the term "turnover"? During the year just closed a trader's sales amounted to £41,327. Show, by means of figures supplied by yourself, how the trader would ascertain the cost of the goods he had sold. Express the gross profit that you show for the year as a percentage of the turnover.

6. How would you arrive at the total value of a trader's stock on hand at the close of a trading year? What rules would you observe in fixing the prices at which to value the goods in stock? Give reasons why these rules should be observed.

7. (a) A shopkeeper's Trading Account for a year shows his gross

profit as £11,278. Draw up an account, supplying figures of your own, to show how the net profit of the year would be ascertained.

(b) Using the same gross profit draw up an account to show a final loss for the year.

8. Arrange the following items in the form of a Profit and Loss Account, placing the items in the order you think they should take. Show what percentage each item of profit and of expense bears to a turnover of £47,652.

	£		£
Bad debts . . .	94	Advertising . . .	708
Carriage. . . .	257	Stationery . . .	241
Lighting and heating	363	Packing charges . .	328
Wages	2,490	Sundry expenses . .	396
Discounts received .	127	Depreciation . . .	202
Rent and Rates . .	620	Gross profit . . .	9,621

9. What is meant by "net profit," and what becomes of the net profit a business makes? In what circumstances will a business show a final loss for a period, and what effect has a final loss on the proprietor's position in relation to the business?

10. Explain for what purposes the expenses and profits shown in an annual Profit and Loss Account are usually worked out item by item to a percentage of the year's turnover. Why is it necessary to the purpose in view that these percentages should be calculated?

11. (a) Last year a trader made a net profit of 5·1 per cent of a turnover of £29,420. In the year before he made a net profit of 5·5 per cent of a turnover of £24,940. Which is the better result, and why?

(b) If the trader's capital in the earlier year was £15,500, and in the later year £16,500, what return per cent of capital did each year yield?

12. A trader made a gross profit of £2,828 last year, which he finds is 26 per cent of his turnover for the year. What was the amount of the turnover? If he had worked out his gross profit to a percentage of cost instead of selling price what would the percentage have been?

13. (a) Why does a trader usually calculate his profits as percentages of turnover, and not as percentages of cost?

(b) A wholesale dealer bought goods for £2,340. He sold them at a gross profit of 15 per cent of selling price. What was the selling price? If the percentage of gross profit were calculated on the purchase price of the goods how much more or less than 15 per cent would it be?

14. A trader bought 1,200 similar articles and priced them for sale at a gross profit which equalled 20 per cent of cost price. Of the articles

400 were sold at the fixed selling price,

400 " " " " " " " less 15 per cent, and

400 " " " " " " " 17½ per cent.

Did the trader make any gross profit on the goods, and, if so, what was the rate per cent of turnover?

15. What percentage of cost price is a gross profit of 15 per cent of selling price? What percentage of selling price is a gross profit of 15 per cent of cost? If goods cost £239 12s., what would a gross profit of 15 per cent of selling price come to?

16. The following are percentages of the monthly turnover—

Month	Gross profit	Net profit
	Per cent	Per cent
January	22.1	3.3
February	21.9	3.0
March	22.2	4.9
April	22.3	5.1
May	22.0	5.3
June	21.8	4.2

How would you account for the net profit showing much greater variation in rate than the gross profit shows ? The average of the six months' rates of net profit is 4.3 per cent, and of gross profit 22.05 per cent. Would either or both of the averages be, in your opinion, a true representation of the rates of net profit and gross profit earned for the whole half-year, and, if not, why ?

CHAPTER XIV

MATTERS OF CONTROL AND FINANCE

HERE we have in mind control to be exercised at the top of the business, such control as speeds up one set of activities, and slackens down another set, to keep them in line or time with a third to which they are auxiliary. We have in view chiefly (1) the regulation of supplies so that they shall correspond in quantity and in kind to demand as shown by sales, (2) the provision of cash available at the bank for payment of creditors claims as they fall due, and (3) the keeping of expenses well within the margin of gross profit that the business earns. These are matters vital to the efficient and successful running of every business. We have to consider methods that the heads of a business can use to inform themselves continuously how things are going ; steps they can take to co-ordinate sections that are outrunning or falling behind each other.

USEFULNESS OF FREQUENT REPORTS. 1. **Orders Received and Executed Daily.** It is important in all businesses that the execution of orders shall be dealt with promptly, and that customers shall not be kept waiting for goods they want. We have previously referred to the futility of *daily* reports for comparison of one period with another. But, for watching that business is being dealt with regularly and punctually, reports made day by day are highly useful ; and a daily return of customers' orders received and executed is a good example of their usefulness. Such a report should show for each day the number of orders received, the number executed and the balance on hand, department by department, as provided for in the form on page 179.

A report like this made every morning will not only give the proprietor of the business a view of the trade that is being done. It will show him which departments are falling in arrear, and where investigation is needed into causes of delay. In a business to which this method can be suitably applied, a similar report of trade inquiries received and answered will be instructive.

2. **Sales of the Week and the Month.** The table on page 180 is intended to represent departmentally the sales of a business week

ORDERS RECEIVED AND EXECUTED

.....19..

DEPARTMENT	NUMBER OF CUSTOMERS' ORDERS				REMARKS
	BROUGHT FORWARD	RECEIVED	EXECUTED	CARRIED FORWARD	
A					
B					
C					
D					
E					
F etc.					
Total					

by week completed up to 30th March of a half-year to end on 30th June. It is convenient in actual business to keep record of sales in weekly totals; but our calendar does not contain an equal number of days or of weeks in each month, nor does it contain an exact number of weeks in the year. That renders comparison of week with week or month with month in different years somewhat inexact. In the table the number of days included in each line of figures is stated, so that the difference in the number of days may be allowed for, when comparison is made at any given point with the table of the year before.

In business it is also a usual practice to record sales, purchases, wages, and so on in monthly totals. The table on page 181 is meant to show by calendar months the same sales as are given in the weekly table on page 180; but in the monthly table the figures of the preceding year are added for comparison. Tabular statements such as these, continuously written up, keep the managers or proprietors of a business posted on the state of trading. Similar reports compiled for purchases and for wages would show whether these have this year been larger or smaller than in preceding years. If trade

is good purchases should increase ; but, if trade is dull, the buying of goods should be reduced so that unwanted stocks shall not remain on hand at the season's close.

WEEKLY DEPARTMENTAL SALES

Cumulative total	No. of days	To	Totals	DEPARTMENTS					
				A	B	C	D	E	F
£		19	£	£	£	£	£	£	£
8,237	5	Jan. 5	8,237	1,442	1,236	1,648	2,060	821	1,030
16,866	6	12	8,629	1,570	1,116	1,739	2,008	896	1,300
26,067	6	19	9,201	1,665	1,357	1,787	2,202	934	1,256
35,222	6	26	9,155	1,715	1,264	1,699	2,357	855	1,265
44,708	6	Feb. 2	9,486	1,788	1,417	1,752	2,438	889	1,202
—	29	Total	44,708	8,180	6,390	8,625	11,065	4,395	6,053
53,598	6	Feb. 9	8,890	1,601	1,216	1,657	2,114	904	1,398
62,932	6	16	9,334	1,822	1,383	1,726	2,395	958	1,050
71,954	6	23	9,022	1,588	1,284	1,641	2,300	862	1,347
81,770	6	Mar. 2	9,816	1,866	1,450	1,777	2,554	1,033	1,136
—	53	Total	81,770	15,057	11,723	15,426	20,428	8,152	10,984
91,704	6	Mar. 9	9,934	1,915	1,388	1,742	2,605	998	1,286
103,231	6	16	11,527	2,280	1,729	2,035	2,864	1,197	1,422
115,992	6	23	12,761	2,614	1,907	2,250	3,101	1,306	1,583
122,936	4	GF 30	6,944	1,433	1,010	1,022	1,695	791	993
—	75	Total	122,936	23,299	17,757	22,475	30,693	12,444	16,268
	5	April 6							
	6	13							
	6	20							
	6	27							
	98	Total							
	6	May 4							
	6	11							
	5	18							
	5	WM 25							
	120	Total							
	6	June 1							
	6	8							
	6	15							
	6	22							
	6	29							
	150	Total							

ECONOMY IN USE OF CAPITAL. Whether a trading business pays or not depends first of all on the trader's being able to sell his purchases at a profit. Next, it depends on his ability to keep the business expenses within the margin of gross profit that he does obtain. Lastly, whether the business pays well or ill depends on the trader's getting the most out of the capital he uses. We said in the last chapter that a net profit of 5 per cent on sales would equal 10 per cent on the trader's capital, if he could work his business with a capital of half the value of his turnover. The less capital a trader

uses for a given volume of sales during a period, the greater will be the rate of return on his capital ; whilst, the more capital he uses for sales of the same volume, the less proportionately will be the rate of net profit he earns on capital.

1. The Capital in Fixed Assets. It follows, therefore, that the capable business proprietor will use the smallest amount of capital adequate to efficiency of working ; or, what comes to the same thing, that he will get out of the capital he does use the greatest possible results. He will see that the capital sunk in fixed or permanent assets is not excessive—that his premises, fixtures, and equipment are not more extensive or more numerous or costly than he needs. He will, of course, take into consideration the nature of his business and any peculiar conditions he is obliged to work under. In retail trade particularly, premises and fittings have an advertising value ; but even then they must bear some reasonable relation to the kind and the volume of trade that can be done. The capable business proprietor will also see that a due proportion is provided each year out of profits for wastage in fixed assets, and for decrease in the value of his leases as the terms of the leases gradually run out. His clear profit cannot be arrived at until he has made that provision ; and, unless he does make it, he will deceive himself by showing his capital at a larger amount than the assets of his business are worth.

2. The Capital in Floating Assets. The trader's floating or changing assets are, however, of equal, if not greater, importance from this point of view than his fixed assets are. It is so easy to buy more goods than are needed for the sales the business makes. Excessive purchases lead to losses, because goods that do not sell in the ordinary course have to be disposed of at less than the normal profit, or even at less than cost. Besides, goods bought must be paid for, and the excess of purchases over sales may mean that money has to be borrowed from the bank in order to pay the suppliers of these surplus goods. Interest paid on the borrowings will eat into profits, and will leave so much less for the proprietor's return on his capital.

One of the secrets of profitable trading is to "turn over" (or sell out and replace) stocks as quickly as possible. A trader, who turns over his stock four times a year, can sell at lower prices than another trader who turns his stock over only twice in the same time. Whilst the latter gets two chances of earning a profit on his capital

the former gets four. He can, therefore, offer his goods at lower prices, and yet obtain a better return on the capital he employs. Suppose the capital sunk in stock were in each case £10,000. Turned over twice at a net profit of $7\frac{1}{2}$ per cent it would yield a return of £1,500; whereas, when turned over four times in the same period at only $4\frac{1}{2}$ per cent net profit, the yield would be £1,800. Further, the quicker turnover helps to increase sales, not only by making the attraction of lower prices possible, but also by keeping stocks always new, and therefore more likely to please. The larger the turnover, too, the more advantageous are the terms on which purchases can be made.

Book debts, or the debts owing to a business by its customers, are another dump on which chunks of capital can be left to lie unnecessarily idle. For that reason accounts owing by customers need to be watched to see that they are paid in time. They need to be watched for the further reason given in Chapter XI—that the longer they are allowed to remain overdue the greater likelihood there is of some of them becoming irrecoverable. The trouble would then be, not merely that capital would be kept idle, but that it would be lost entirely. As also explained in Chapter XI, the best preventative of loss of capital through bad debts is the exercise of adequate care at the point where the question of giving or withholding credit arises.

CONTROL OF PURCHASES AND STOCKS. 1. Points to be Watched.

The goods that a business buys and holds for sale have to be watched at two points—

1. When they are in stock, to see that they are selling and are not lying on hand absorbing capital that does not earn a profit.

2. Before they come into stock—at the time when they are ordered—to see that supplies to arrive shall be adequate to the needs of the business, but shall not be excessive.

A routine for controlling the ordering up of goods, and for watching the business commitments for liabilities to suppliers, was sketched in Chapter VII. Hints on various points have also been given previously for the supervision of stocks of goods on hand.

2. Monthly Estimates of Stocks. In the wholesale or the retail drapery and other trades, the nature of the business done necessitates the holding of comparatively large stocks of goods for sale. It is not usually practicable in such trades to take an inventory of stocks

at more frequent intervals than twice a year. In such conditions estimates prepared month by month of the stocks held will prove useful to the management for the purposes of control. These estimates can be quickly got out from the monthly figures of purchases and sales, by allowing off the sales of the month the approximate gross profit earned, according to the rates shown by the final accounts of the business for preceding half-yearly periods. Such estimates of stocks should be worked out department by department as in the example given below. The accuracy of the estimates would be tested by comparison, as in the table on page 185, of the actual values of stocks on hand at the close of each half-year with the values estimated.

3. Calculating Rapidity of Turnover. The rapidity of turnover, or the number of times stock is sold out and replaced during a period, should be calculated by taking the sales of the period *at cost price*

ESTIMATED DEPARTMENT STOCKS

31st March, 19..

Department	A	B	C	D
Approximate rate of gross profit earned	30%	35%	33½%	25%
Estimated stock on 1st March . .	£22,461	£15,894	£12,296	£28,917
Add Purchases for March . . .	5,940	5,612	6,447	6,359
„ Transfers from other departments at cost	285	—	128	202
Cost of total goods for month . .	28,686	21,506	18,871	35,478
Sales for the month	9,084	6,841	7,585	11,428
Less gross profit estimated at the rates shown above	2,725	2,394	2,528	2,857
Cost of goods sold in month . .	6,359	4,447	5,057	8,571
Add Transfers to other departments at cost	22	304	119	616
Estimated stock on 31st March . .	22,305	16,755	13,695	26,291
Cost of total goods as above . .	28,686	21,506	18,871	35,478

MONTHLY STOCKS—THEIR AVERAGE AND RAPIDITY OF TURNOVER

Depart- ments	Actual stock 1 Jan.	Estimated stocks					Actual stock 30 June	Average of six months	Cost of sales of period	Half- year's rapidity of turnover	Depart- ments
		31 Jan.	28 Feb.	31 Mar.	30 April	31 May	30 June				
A	£ 19,234	£ 20,930	£ 22,461	£ 22,305	£ 21,376	£ 20,548	£ 18,515	£ 20,797	£ 33,564	1.6 times	A
B	£ 13,963	£ 14,551	£ 15,894	£ 16,755	£ 16,107	£ 15,327	£ 14,134	£ 15,228	£ 24,027	1.6 "	B
C	£ 11,525	£ 12,087	£ 12,296	£ 13,695	£ 12,885	£ 11,615	£ 10,689	£ 12,135	£ 30,110	2.5 "	C
D	£ 22,614	£ 25,368	£ 28,917	£ 26,291	£ 24,507	£ 21,993	£ 20,801	£ 24,325	£ 46,330	1.9 "	D
E	£ 7,876	£ 8,611	£ 8,430	£ 9,554	£ 9,512	£ 8,745	£ 8,029	£ 8,678	£ 20,032	2.3 "	E
F	£ 10,202	£ 11,584	£ 11,402	£ 12,857	£ 12,184	£ 11,411	£ 10,705	£ 11,472	£ 23,953	2.1 "	F
Totals	£ 85,414	£ 93,131	£ 99,400	£ 101,457	£ 96,571	£ 89,639	£ 82,873	£ 92,635	£ 178,016	1.9 "	Totals

NOTE.—This table is made for a period of six months to serve as an illustration of how rapidity of turnover should be calculated. For this purpose, however, it is usual to take the period of a whole year instead of half a year. In business stock is said to be turned over so many times a year.

and dividing that figure by the average value of the stock held during the period. In the table on page 185 the average taken is that of the actual stocks at the beginning and the end of the period, together with the estimated stocks at the close of the five intervening months. Comparisons can be made by consulting the similar table prepared at the corresponding date of the previous year. We have already explained the importance of rapidity of turnover in relation to the return obtained on the trader's capital.

4. The Draw of Lower Prices. Reverting to the comparative Profit and Loss Account on page 165, we notice that, whilst the sales of this year are £4,908 more than those of last year, the expenses this year are only £101 up. Net expenses last year amounted to almost one-fourth of the value of the sales ; yet this year £4,908 more sales have been made with an additional expense of only one-forty-ninth of that increase. How has it been done ? Though the account shows a rate of gross profit this year which is lower than last year's, the rate of net profit is higher. Also, the *amount* of gross profit shown is more than last year's by £537, and the amount of net profit £436 more. In the year of higher sales and better profits the sum spent in advertising has actually been less.

For our present purpose we may assume that the increase in sales and profits has been due, in part at least, to the draw of lower prices. Our account can be taken to illustrate the fact that lower prices tend to increase sales. And, provided the prices are not cut down too much, the reduction may tend to increase net profits, also. Everyone can understand how, on the one hand, the raising of prices to exorbitant figures will drive customers away ; how, on the other hand, the lowering of selling prices until they approach to cost causes profits to disappear. Selling prices must be fixed so far above cost as to cover necessary expenses, and to leave a margin as proprietor's profit. The problem of every trader is the fixing of prices at a level low enough to attract trade, and yet high enough to yield, after expenses have been paid, a margin on the year's turnover that, though not the highest possible in rate, will be the most satisfactory in amount.

CONTROL OF CREDIT AND BOOK DEBTS. As in the case of stocks, so in the case of book debts, there are two points at which credit must be carefully watched, if capital is not to be locked up too

long in customers' accounts that are overdue, or lost altogether sometimes in debts that will never be paid. The two points are—

1. On the granting of credit—to make sure that credit is not given in quarters where it will be abused.

2. When accounts pass the due date without being paid—to prevent them from remaining overdue any longer than can be helped.

In Chapter XI the routine of granting credit was fully dealt with, also the steps to be taken for getting in payment of accounts.

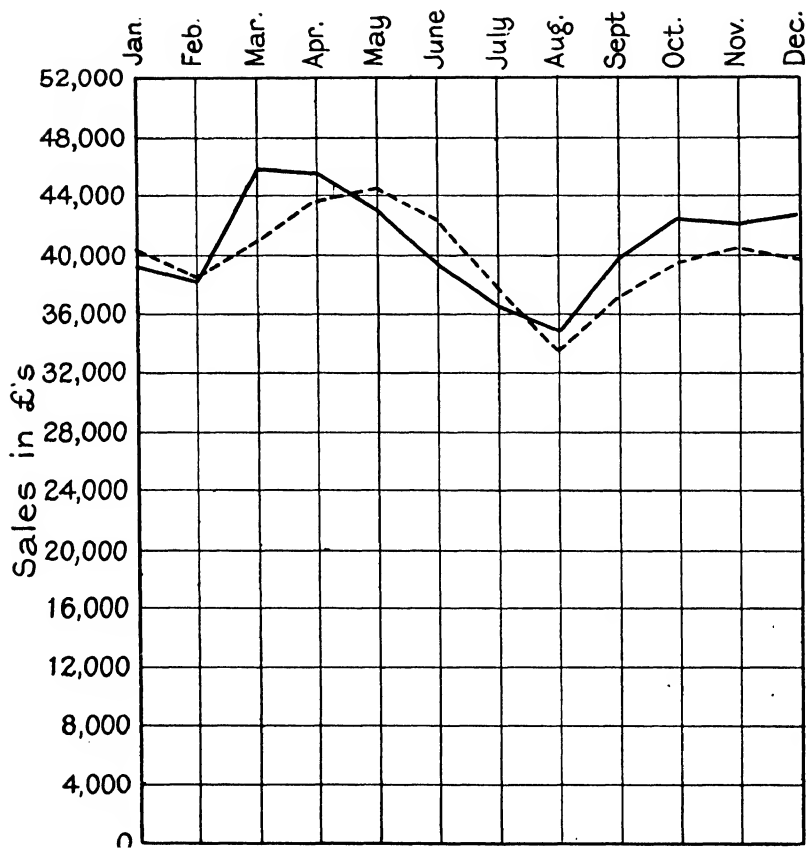
It is with the object of keeping as low as possible the capital absorbed by book debts that discounts are offered to credit customers for payment of their accounts within appointed times. To inform the proprietor of a business of what debts are outstanding too long, a list should be prepared monthly of the names of such accounts, the amounts that are overdue, and the dates when they should have been paid. For the same purpose the total of the amount outstanding on the Debtors' Ledgers may be reported monthly. It can be quickly ascertained by preparing every month for each of the customers' ledgers a Total Debtors' Account in the following form—

TOTAL DEBTORS ON LEDGER G

	£	s.	d.		£	s.	d.
Debit balances on 1st				Cash received in May	12,901	17	4
May, 19.. . . .	20,349	5	—	Discounts allowed . . .	340	1	11
Credit sales for May .	13,281	14	1	Returns credited . . .	102	11	10
Transfers from other				Bills received . . .	249	8	6
ledgers	11	4	6	Transfers to other			
Other amounts				ledgers.	7	—	4
debited	29	10	2	Other amounts credited	11	2	6
				Debit balances on 31st			
				May, 19.. . . .	20,059	11	4
	<u>£33,671</u>	<u>13</u>	<u>9</u>		<u>£33,671</u>	<u>13</u>	<u>9</u>

This account shows owing on this ledger £20,059 11s. 4d. on 31st May as compared with £20,349 5s. on 30th April. When the balance of this ledger is added to those of the other Debtors' Ledgers, the total owing to the business by all its customers will be obtained. Comparison with the figures of previous months will show whether the total increases or declines.

In compiling this account the months' sales on the debit side and the returns on the credit side come from the Sales Journal and the



The plain line represents this year's sales.

The dotted line represents last year's sales.

Returns Inwards Book. Cash received and discount allowed come from the Cash Book. The remaining items on both sides, with the exception of the balances, are found similarly in the books of first entry from which these items were posted to this ledger. Where accounts like this are got out regularly the Sales Journal and the Cash Received Book are usually provided with a special posting column for each of the Sales Ledgers.

THE COMPILATION OF STATISTICS. 1. Matter for Statistics in Trade.

In statistics of trading businesses the figures of sales or turnover occupy the most prominent place, because it is in the sales that the profits of a business arise. Stocks take an important place because their age and condition ultimately affect the gross profits that a business earns. Then the size of the stocks held, and the quantity and age of the book debts outstanding, affect the final result that the business shows. But wages paid should not be lost sight of, for they may rise out of proportion to the increase in profit that increased sales contain, or they may not fall with the decrease in profit that falling sales will bring. And expenses, such as the costs of advertisements and of travellers, should be reported regularly and frequently, so that they, too, may be watched and compared. Where the business is run departmentally these statistics must, where possible, be compiled department by department. Returns prepared merely for the business as a whole do not show which departments are going right and which are going wrong. It has been stated that comparisons are sometimes vitiated by a considerable difference in the level of prices as between two years. In a few trades, such as that of coal merchant, the difficulty can be overcome by tabulating turnover in tons as well as in money. But in most trades the commodities handled are too varied for records of quantities to be either practicable or useful.

2. The Table and the Graph. In some ways presentation of statistics by graph is more striking than presentation in tabulated form. For example, the chart on page 188 can be compared for effectiveness with the table on page 190.

Both represent the same facts ; and the advantages of the one form or the other may be stated thus—

1. The rises and falls show up more clearly on the chart than in the table.
2. Where one year is better or worse than the other also shows more clearly on the chart.

3. The extent of the difference between the two years is not, at any point, so easily or so exactly ascertained from the chart as from the table.

4. The totals for the two years appear plainly in the table. From the chart they are difficult to ascertain even approximately.

5. The chart emphasizes the differences on the margin of the volume of sales. It fixes attention too much on the increases and decreases and draws attention away from the great bulk of sales that both years have in common.

3. Clearness an Essential. Statistics should give a true picture of the facts that they present ; but accuracy carried to a minute degree is neither necessary nor desirable. On the other hand, if the statistics are to yield their fullest service, they must be clear. And clearness of presentation gains when minute accuracy is disregarded and minor details dropped. That is why money amounts

Sales	This year £	Last year £
January	39,271	40,332
February	38,139	38,218
March	45,526	40,927
April	45,387	43,881
May	43,118	44,217
June	39,297	42,450
July	36,140	37,592
August	34,966	33,705
September	39,849	37,141
October	42,565	39,283
November	42,112	40,084
December	42,873	39,476
Totals	489,243	477,306

should be taken to the nearest pound only, shillings and pence being omitted. In tabulating sums of any considerable size ten shillings more or less is of no appreciable importance. The presence of shillings and pence makes the table more difficult to comprehend, the attention being spread over points that do not matter, when it should be concentrated on those that do. If the amounts are very large the exact figures of units, tens, hundreds, and even thousands will have little relative value. Ease of comprehension of the table as a whole may justify or require their omission. In the table

below, for example, the contents of column 3 are more easily laid hold of by the eye and the mind than those of column 2; whilst the relative sizes of the amounts are still more easy to grasp when they are presented as in column 4 or 5.

1	2	3	4	5
Department	£ s. d.	£'s	£100's	£1,000's
A	47,949 3 11	47,949	479	48
B	36,963 17 4	36,964	370	37
C	45,163 12 10	45,164	452	45
D	61,774 8 3	61,774	618	62
E	25,848 4 6	25,848	258	26
F	33,038 18 -	33,039	330	33
Total	250,738 4 10	250,738	2,507	251

MONTHLY TRADING ACCOUNTS. In a departmental business the yearly or half-yearly Trading Account—the first section of the Profit and Loss Account—would be compiled to show stocks and purchases, sales and gross profits, for each of the departments. A form suggested for a tabulated Departmental Trading Account is given on page 192. Such an account, however, contains information that would be exceedingly useful if it could be obtained month by month, instead of yearly or half-yearly only. From our usual records of purchases and sales we can get all the figures needed for monthly accounts of that form, except the figures for stock. Where it is practicable to take stocks every month the figures for actual stocks can be obtained as well; but, where monthly stocktaking is not practicable, estimates can be used, prepared in the manner explained at pages 183 and 184.

EXPENSES AND MONTHLY ACCOUNTS. Less satisfactory is the attempt to deal monthly with the second section of the Profit and Loss Account. If, however, the attempt is made, the various items of expenses and gains should be divided into three classes, and one amount charged for each class. The first class covers all salaries and wages except productive wages; and for those the monthly charge should be the actual amount paid. But as wages are paid

DEPARTMENTAL TRADING ACCOUNT

Departments	Opening stocks	Purchases	Transfers from departments	Gross profits				Totals	Sales		Transfers to departments	Closing stocks	Departments
				This year		Last year			This year	Last year			
				£	%	%	£						
A													A
B													B
C													C
D													D
E													E
F etc.													F etc.
Total													Total

NOTE.—As explained in the text this form can be used for monthly Trading Accounts. If the cumulative monthly totals of the columns for sales and gross profits are tabulated on a separate form, with the percentages worked out anew, a very useful report is obtained month by month of the progress of trading for the current year.

weekly, and as a calendar month does not contain an even number of weeks, some adjustment of the opening and the closing week is necessary, except when the month and the week begin or end on the same working day. The second class of expense items includes fixed charges like rent and rates, charges that do not rise and fall with increase and decrease of sales. A fair monthly charge for these is one-twelfth of the charge for the year. In the third class of Profit and Loss items come all other charges and gains that vary to a greater or less extent with turnover. For this class the month's charge may be taken as a percentage of the month's sales, the rate being fixed according to the experience of previous years. In such manner the net profit (or the final loss) of the business as a whole can be estimated month by month ; and these monthly estimates added together will show what result is calculated to have been reached from the beginning of the current trading period to the end of the last completed month.

Each of the selling departments of a business should be charged with the wages paid in the department ; but the wages of non-selling departments and the other expenses just described cannot be apportioned to selling departments satisfactorily in monthly accounts. They may, however, be apportioned with some degree of fairness, on the basis of departmental sales, in the yearly or half-yearly accounts. With multiple shops there is less difficulty in the just allocation of Profit and Loss items, as nearly every item of expense is particular to this or that branch, and only a few are general. It should be understood that, when monthly accounts are prepared, they are treated only as approximations more or less correct. The final presentation of the business results is that of the annual accounts. It is on the basis of these that the profits of the business are distributed, or its losses shared.

All the accounts, statistics, or reports we have been describing help the proprietor to keep a finger on the pulse of his business, and to discover quickly when anything begins to go wrong. Still, the making of reports and the compilation of statistics can be carried beyond the point of greatest usefulness. Details multiplied and elaborated can neither be grasped nor assimilated. They need to be sifted and condensed. Every report or table of statistics should have a definite purpose to serve, and it should present what it has to tell in simple but effective form.

QUESTIONS

1. Describe in detail the procedure you would suggest for keeping the management of a business continuously informed regarding the number of orders dealt with and the promptitude or otherwise with which they are executed.

2. Rule a form to be used for tabulating in weekly amounts the sales of a trading business with three selling departments. Fill in figures for the first ten weeks of the period your table is intended to cover.

3. Submit a form suitable for tabulating in monthly amounts the sales of a trading business that comprises four selling departments. Fill in figures for the first three months of the present year and show last year's comparisons.

4. Name six matters (connected closely with the working of a wholesale or a retail business) for which the proprietors or managers would find it useful to have statistics supplied monthly. Explain for what several purposes you consider such statistics would be useful.

5. Indicate five different points at which care can be effectively exercised with the view of economizing in the use of business capital. How can economy be effected by watching at these points, and why is economy in the use of capital desirable?

6. Explain clearly how rapidity of turnover affects the rate of return obtainable on the capital of a business. Illustrate your answer by simple examples.

7. Show how you would estimate the value of the stocks on hand in two departments at a date two months after the close of the last trading period. Assume, (a) that each department's rate of gross profit is constant, but (b) that the rates of the two departments are different.

8. Show by means of figures you will supply how you would calculate the rapidity of turnover of a business as a whole, or of a single department. Why is it desirable to ascertain what the rapidity of turnover has been?

9. Explain, going into detail, how you would control the amount of business capital held in stocks of goods on hand for sale.

10. Explain, going into detail, how you would control the amount of capital used in financing the book debts of a wholesale business.

11. What is a "Total Debtors Account"? Construct an imaginary account of that kind for one sales ledger. How would such an account be serviceable in controlling the finance of a business?

12. (a) Explain several of the considerations to be kept in mind when comparing weekly or monthly figures of sales one year with another.

(b) Why should statistics of a departmental business be presented, where possible, department by department?

13. Set down your views on the advantages, for business statistics, of the graphic over the tabular form of presentation, or of the tabular over the graphic.

14. What rules would you apply to the compilation of business statistics, with the object of securing clearness of presentation and ease of apprehension?

15. Supply figures, and construct a monthly trading account for a

wholesale business of three selling departments. Explain from what source you would obtain each different set of figures you use.

16. Explain how you would proceed if you were required to estimate as accurately as you could the net profits of a business month by month, and to show the total estimated net profit to the end of the fourth month of the current half-year.

17. Discuss and compare the results obtainable by two traders in the same line of business. One of them uses a capital of £10,000, and carries an average stock of £7,000, which he turns over three times a year at a gross profit of 30 per cent of his sales, his expenses being £5,000 for the year. The other uses £12,000 as capital. He carries an average stock of £8,000, which he turns over five times a year at a gross profit of 20 per cent of his sales, his expenses being £6,200 a year.

18. Discuss the merits of the ratio of net profit to capital and of the percentage of net profit to sales, as tests of the profitability of a wholesale trader's business.

CHAPTER XV

THE CAPITAL OF A BUSINESS

CONSIDERABLE differences of meaning occur in the use of the word "capital," when it is applied to other than purely business affairs. For instance, we speak of a "capital offence," of the "capital" city of a state, and of a "capital" letter in writing or in print. Applied to affairs of business the word varies in its meaning, again. In this chapter we propose to show what some of its commercial uses are, and to make clear to our minds what, in its several variations, the term "capital" signifies.

A BALANCE SHEET AND WHAT IT SHOWS. The object of the Profit and Loss Account of a business is to show what net or clear profit has been earned by the business during the period that the account covers ; or, when no profit has been earned, its object is to show what final loss has been sustained for the period in question. A Profit and Loss Account is, therefore, always made for a period of time, and it covers, as a rule, a year's or a half-year's trading. It is usually accompanied by another statement known as a "Balance Sheet," which is made out in a form similar to that on page 197. A balance sheet does not, like a Profit and Loss Account, summarize the trading transactions of a *period*. Its object is to show how the business stands at a given point of time ; and the point selected is that at which the trading period of the Profit and Loss Account has closed.

To show how the business stands, a balance sheet first sets out on one side a statement of the business liabilities, or what the business owes. Against these, on the other side, it sets out a statement of the business assets—the things that the business possesses which are available at the time, or can be made available later, for paying liabilities off. Consequently, the balance sheet states both liabilities and assets valued in terms of money.

In part the object of a balance sheet is to show whether the business is solvent or not, that is, whether or not it can pay its creditors' claims. In the one case, the balance sheet tells us what surplus of assets would be left after all outside creditors had been

GREEN AND GRAY

BALANCE SHEET AT 31st DECEMBER, 19..

LIABILITIES		£	s.	d.	ASSETS		£	s.	d.	£	s.	d.
Trade creditors	.	.	.	4,338 17 10	Cash in hand	.	62	4	6			
F. W. Leyton, loan	.	.	.	5,000 - -	" at bank	.	1,515	10	1			
Partners' Capital Accounts:												
Henry Green,					Bills receivable	.	.	.	.	1,577	14	7
Amount at 1st January	.	£17,803	18	8	Trade debtors	.	8,220	19	-	251	10	-
Add three-fifths net profit	.	2,180	5	4	Less Reserve for bad debts	.	205	10	6			
										8,015	8	6
Deduct drawings	.	19,984	4	-	Stocks of goods	.	.	.	.	19,014	15	6
		1,500	-	-	Fixtures and fittings	.	7,266	18	4			
				18,484 4 -	Less depreciation.	.	363	6	11			
Robert Gray										6,903	11	5
Amount at 1st January	.	11,869	5	9	Leasehold premises	.	4,501	-	4			
Add two-fifths net profit	.	1,453	10	3	Less depreciation	.	118	2	6			
										4,382	17	10
Deduct drawings	.	13,322	16	-								
		1,000	-	-								
				12,322 16 -								
										£40,145	17	10

NOTE. This balance sheet corresponds to the Trading and Profit and Loss Account given on page 164.

paid ; in the other, what deficiency there is, or by what amount the assets fall short of meeting all outside creditors' claims in full. The surplus, when there is one, belongs to the proprietor or proprietors of the business. It is the amount of this surplus of assets over liabilities that in book-keeping is called the " capital " of the business. The capital shows the money value of the interest or interests held at the time in the business by the proprietor or proprietors. In our specimen balance sheet the capital or surplus of assets is the property of two partners, and it is shown divided between them, according to their own agreement, in the ratio of 3 to 2. Each of the partners has a claim on the firm for the amount of the capital he has in it ; and, for that reason, the balance sheet shows the capital amounts as liabilities to be accounted for to the proprietors after all other creditors have been paid. The same method, of showing capital as a liability of secondary degree, would be followed in the balance sheet of a sole or single trader. Unless assets exceed liabilities the proprietor has no capital in the business at all.

WHAT THE CAPITAL REALLY IS. Our explanation means that the values stated on the left side of our balance sheet represent the same things as the values stated on the right, but represent them from a different point of view. That is why the two sides of a balance sheet always add to the same amount. They are merely two ways of arranging the same things. The liabilities side shows the asset values divided in a different way, re-arranged under different heads. It shows, first, how much of the assets must be earmarked for settlement of creditors' accounts ; and, next, what remainder of the assets belongs to the proprietors of the business themselves. The capital is, therefore, really assets—such of them and so much of them as creditors have no claim upon. Assets, however, comprise all the things, capable of money value, that the business uses in carrying on its trade. From viewing capital merely as the amount of the proprietor's holding expressed in money, we have passed on to see that it really consists of book debts, stocks of goods, fixtures and buildings, as well as of cash in hand and a balance at the bank. These are the forms in which the capital of traders actually exists—these and a few other forms like bills of exchange, patent rights, and leases.

A manufacturing business has its capital existing largely in

machinery and perhaps in works ; a railway, in land, track, and stations, in engines, carriages, and wagons ; a shipping company, in ships. All these are forms of wealth. As such they have been produced or extracted or collected from the raw material world of nature by the labour and the ingenuity of man, and for his use in the satisfaction of his wants. In the stricter view of the economists, capital is wealth produced, which has not been consumed in satisfying wants, but has been saved as a means of helping to produce more wealth. Its simpler and primitive forms were the agriculturist's seeds kept for sowing, and the tools the workman made to assist his hands. In the highly developed industrial organization of to-day it includes immense accumulations of productive and distributive equipment, and it includes vast quantities of produce, held in store or transit in the course of distribution for consumption.

FIXED AND CIRCULATING CAPITAL. Of the possessions of a business some are what we call "fixed assets" ; others are "floating assets." Fixed capital or assets include the several kinds of *permanent equipment* provided in the business, such as buildings, fixtures, furniture, and machinery. Under the same head of fixed or permanent equipment must be placed, also, such non-material or intangible possessions as leases, patent rights, and goodwill. Floating or circulating capital or assets comprise all those possession that *continually change* from one form to another as we engage in the activities of buying and selling, of paying and being paid. They are the immediate subject-matter of our trading activities—the pieces we directly use in playing the game of business. They include stocks of goods, book debts, bills receivable, the balance to our credit at the bank, and the cash in hand.

Every trading transaction causes some change in assets of this class. Stocks of goods change by sale into cash or book debts ; book debts by payment change to cash, and cash changes into an increase of the balance at the bank. Credit purchases increase the asset stock ; but they also increase the liabilities to creditors. And when the liabilities are reduced the asset of cash at the bank is likewise reduced by the amount taken to pay the creditors' accounts. Changing time and time again in the course of trading, floating assets never appear the same in two balance sheets. But fixed assets, being the permanent equipment of the business, stand as

the same assets year after year in the balance sheets, subject only to depreciation in value due to wear and tear, or to other causes.

Some assets are subject to wastage as machinery from wear and tear and leases from effluxion of time in the fixed class, and as stocks of goods for sale or for use in the floating class. On the other hand, some are not subject to waste. Such are the fixed asset land, and the floating asset of cash in hand or at the bank. Depreciation of fixed assets is usually allowed for by writing off yearly a percentage of their value. In stocks of goods it is allowed for by revaluation.

LIQUID AND WORKING CAPITAL. 1. **When Capital is Liquid.** "Liquid" capital is cash in the office till or safe, and a balance to be drawn on at the bank. Capital that is fully liquid consists, therefore, of such assets as are *immediately* available for the payment of liabilities. Other of the floating assets of a business partake of the nature of liquidity or realizability in so far as they will, in the course of business, be turned sooner or later into cash, and become available for settling creditors' claims. Next to cash in degree of liquidity come bills receivable, because the dates of their payment are fixed, and because the bills can probably be discounted or negotiated, and so be turned into cash at once, or be used at once for the purpose of payment. After these in order of liquidity come book debts or stocks of goods. Book debts will come first when the normal course of trading is for stock to become book debts by sale on credit, and later for the book debts to turn by payment into cash. Where, however, goods are sold for cash in retail trade, then the goods come as near to the full liquid state as do book debts, which may not become cash for days or weeks or months. Fixed assets are not in any degree liquid. They are not intended for sale, and are not usually converted into cash except when a business is closed down.

2. **How a Trader Lays His Capital Out.** In these days none but the humblest of businesses can be set up without capital to begin with. A retail shopkeeper may start in business with a capital of £10,000 lying at the bank. Before trading operations are begun some part of that sum must be spent on premises—on suitable fittings and fixtures, and on an attractive shop front. How much more goes into premises will depend on how the premises are acquired. If they are bought freehold, then the outlay upon them will be greatest; but if they are simply rented it will be the least. Should a lease for

a period have to be purchased, or a premium for it paid, the payment will be larger again ; but not so large as for a purchase of the premises outright. These objects—premises, fittings, and front—will make up the fixed equipment of the business, unless an existing business has been bought, and a sum paid for the goodwill or the value of the connection. The outlay on fixed assets may come to £6,000, leaving £4,000 to be used in liquid or floating assets—in stocks, in book debts if credit is given, and in keeping a balance at the bank.

What part of a business capital must be laid out in fixed equipment, and what part in floating or changing assets, depends on particular circumstances and on what kind of business it is. Large and popular retail establishments expend more on attractive premises and furnishings than wholesale houses do. In the wholesale more capital must go into book debts as credit to customers, and sometimes long credit is the rule ; whilst in the retail the sales are mostly for ready cash. Manufacturers, again, commonly sink big sums of capital in fixed assets, when much costly machinery has to be provided, and extensive works buildings are required. In the balance sheet on page 197, out of total assets valued at £40,145, as much as £28,859 is in liquid or partly liquid form, and only £11,286 in assets of the permanent kind.

3. The Meaning of "Working Capital." What is sometimes described as the "working capital" of a business is just the same as its floating or circulating capital or assets. It includes the balance of proprietor's capital left available for trading after the fixed equipment of the business has been provided. The balance of proprietor's capital available for the carrying through of trading transactions will, however, be increased by the extent of the trade credit the business receives, and by any loans it raises. The phrase "margin of working capital" usually indicates such part of the working capital as is immediately available for payments. It is, in effect, the balance at the bank.

4. Capital Used and Capital Owned. The balance sheet on page 197 shows £40,145—the total of the assets—as the capital *in use* in that business on the date given. Of that sum, as we have seen, £11,286 is fixed capital, and the remainder, amounting to £28,859, is floating or circulating or working capital. Again, of the £40,145 total capital in use, £4,338 belongs, in effect, to trade creditors of

the business, and £5,000 to a creditor for a loan. There is left, therefore, £30,807 as the capital belonging to the partners or the capital *owned by the firm*. It is only this part belonging to the proprietors of a business that is called "capital" in book-keeping. In this balance sheet the margin of working capital, or the amount immediately available for payments, is £1,577.

THE NEED OF WORKING CAPITAL. Working capital is needed for the provision of adequate stocks without which sales will be missed and profit on them lost. It is needed, also, to finance book debts, where credit to customers must be given. We have previously mentioned the value to a business man of the reputation of being a "good payer." We have mentioned, also, the profitableness to him of always paying in time to get the biggest discount. Such a reputation cannot, however, be maintained, nor can the best discounts be secured, unless his working capital is sufficient to provide the liquid margin necessary for prompt payments to be made. It is for the purpose of having this margin ready whenever it is needed, and of keeping at the same time all the business capital as active as possible, that close and continuous supervision is required of stocks and the placing of outward orders, of book debts and the giving of credit. Inattention to these points leads to bad debts, to capital locked up inactive, to discounts continually missed, and to a good payer's reputation lost.

READING THE FINANCIAL POSITION. What, according to the balance sheet on page 197, is the position of Messrs. Green & Gray as regards their ability to "pay their way"? We notice first that their liability to trade creditors is £4,338. Against that liability they have some £1,500 lying at the bank; that is, they have available for immediate payment fully one-third of the amount they owe. But the whole of the £4,338 will not be due for payment immediately, and we may safely assume that one half of it will not fall due for a month. We may assume as well that, by the end of the month, one-third, at least, will have been received of the £8,266 owing by debtors on open accounts and on bills. One-third of £8,266 is £2,755, or just about sufficient to pay the portion of liability to creditors that the bank balance does not cover.

Turning to the Profit and Loss Account on page 165, we find that the annual turnover of this business is £70,000, of which amount the total of the debtors, shown on the balance sheet, comes to less than

one-eighth. It appears, therefore, that the business sells for cash as well as on credit. If that is so, then some part of the stock of goods will be turned into cash day by day from now onwards. It would seem, then, that Messrs. Green & Gray will experience no difficulty in taking their discounts from the suppliers of their goods. Repayment of the loan of £5,000 is not likely to be required soon ; but, if it were, the firm is in a position to be able to renew the loan in another quarter without any trouble. We have already noticed that outside claims on the business, including the loan, come to less than one quarter of the total assets. Also, we have seen that well over two-thirds of the assets are either fully liquid or in a partly liquid or realizable state. For the purpose of facilitating the reading of the position in the way we have been doing, a well drawn balance sheet sets out the liabilities of a business in the order of their priority of claim to payment, and the assets in the order of their degree of realizability.

THE SUPPLY OF BUSINESS CAPITAL. It will be understood that every business needs capital to begin with—some part for the provision of the necessary equipment, and some part for the floating assets (stock, book debts, and cash) with which the business can carry on its trade. If the undertaking is successful, it will need more capital from time to time. A thriving business calls for continuous new supplies to put into additional equipment, into growing stocks, and into swelling book debts. How can it procure the extra supplies it requires ?

The balance sheet we have been studying shows us, again, that neither of the partners Green or Gray has drawn out of the business all of his share of profit for the preceding year. By leaving profits in the business the partners have in the year increased their combined capital holdings to the extent of £1,133. That is one way, and the very best way, of feeding a growing business with some of the new capital it needs. Its growth may, however, be a more rapid one than that method can finance. Then other sources of supply must be sought out.

It may be that a partner is admitted, who brings in new capital. Perhaps money is borrowed from the bank as it is required, particularly for seasonal needs. Possibly a loan is obtained from a private source, probably on a mortgage of premises the business already owns, or of additional premises it must acquire. Solicitors and

estate agents can usually put a business man into touch with persons able and willing to lend money at interest on such terms.

Another and very usual way of raising needed money is to appeal to the public for subscriptions to the capital of the business. But, before that can successfully be done, the proprietorship of the business must be changed into the joint-stock company form. Contributors to the company's funds will then have the standing and the protection that is given to them by the Companies' Acts. The business must, however, be sound ; or it must be such as can be made the basis of a likely appeal. Given suitable conditions a prospectus would be issued inviting the public to become members of the company by taking shares in its capital ; or to become debenture holders, that is, loan creditors of the company with the special rights that the debentures confer. On page 205 is submitted a specimen of a company balance sheet. It shows the proprietors' capital as shares, and it shows a loan raised in the debenture form.

THE SHARE CAPITAL OF A COMPANY. Shares are the fixed, equal, and indivisible parts into which, by the terms of its Memorandum of Association, the capital of a company is divided. Each share is given a distinctive number that serves to identify and describe it when it changes hands. No share can be broken into fractions, not even when its value is high. The holder of ten £50 shares in a banking company would be free to sell one, two, three, or more whole shares ; but not to sell half a share, or one and three-quarters, or any quantity other than a whole number. Shares of £1 each are much the most common size, but any denomination may be created, for example, shares of 1s. each, or of £100.

The amount of share capital that a company is authorized by its Memorandum of Association to raise is termed, as in the balance sheet on page 205, its Authorized or its Nominal Capital. Such part of the Authorized Capital as has been applied for and allotted to the applicants is known as the Subscribed or Issued Capital. The sum that has actually been received in respect of the capital subscribed is called the Paid-up Capital. A peculiarity of the company form of capital is that the shareholders, unlike the partners of a firm, have the right to transfer their shares to other persons, subject to any conditions the company's Articles of Association may impose on the transfer. On the other hand, a member of a partnership can withdraw his capital ; a shareholder in a company cannot. The

PARAGON PRODUCTIONS LIMITED

BALANCE SHEET AT 31st MARCH, 19..

LIABILITIES		£	s.	d.	ASSETS		£	s.	d.
Authorized capital :					Goodwill				40,000
200,000 6 per cent cumulative preference shares of £1 each		200,000	—	—	Freehold buildings				150,000
300,000 ordinary shares of £1 each		300,000	—	—	Plant and machinery		£152,000	10	4
					Less depreciation.		15,200	1	—
500,000		500,000	—	—	Debenture Redemption Fund investments.				136,800
					Stocks				26,660
Subscribed and paid-up capital :					Stores and raw materials		10,149	1	2
130,000 preference shares	£	130,000	—	—	Partly manufactured products		19,333	2	6
fully called up					Finished products		42,725	2	3
220,000 ordinary shares fully paid	£	220,000	—	—	Debtors : Trade Accounts		£85,500	12	3
					Less Bad Debts Reserve		5,985	—	5
Less preference calls in arrear	£350,000	200	—	—	Amounts paid in advance and interest accrued		£79,515	11	10
5 per cent Mortgage Debentures Reserve Account		349,800	—	—	Cash at bank		2,123	8	6
Debentures Redemption Fund		50,000	—	—	„ in hand		£14,910	8	1
Add interest accrued		35,000	—	—			161	10	5
		26,660	3	4					
		990	1	2					
Creditors : Trade Accounts	£23,464	2	10						
Debenture interest due and dividends unclaimed		717	10	—					
Profit and Loss Appropriation Account		24,181	12	10					
		35,747	5	5					
		£522,379	2	9					

shareholder's course is to find, through a stockbroker and the Stock Exchange, a buyer for the shares he wants to realize.

KINDS OF SHARES, AND STOCK. 1. **Preference Shares.** These entitle their holders to receive out of profits a fixed rate of dividend each year, before the ordinary shares of the company have any dividend paid on them. When preference shares are of the kind known as "cumulative," deficiencies of dividend accumulate from year to year as arrears to be paid off before any dividend whatever can go to the ordinary shares. Preference shareholders may or may not have, in addition, a priority over ordinary shareholders for repayment of their capital when the company comes to be wound up. In the same company there may be different classes of preference shares, as 6 per cent and 7 per cent preference shares, or A preference and B preference bearing different rights, and probably being issues made at different times. "Participating" preference shares carry a right to a fixed rate of dividend, and give their holders in addition a further right to participate, with ordinary shareholders, in any profits distributed after the ordinary shareholders have been paid a stated rate. It should be understood that a company is not allowed to pay dividends to its members except out of the profits of the year, or out of any reserve of undistributed profits in hand.

2. **Ordinary Shares** rank for dividend only after the fixed dividend has been paid on any preference shares the company has issued. Except where preference shares exist of the participating kind, or where there is a class of deferred shares, no limit is, as a rule, set to the dividend that may be paid on ordinary shares, so long as it is paid out of profits. When a company is doing well its ordinary shares of £1 nominal value may be selling much above that figure. Those of a company paying regularly a dividend of 17 per cent per annum might be priced round about £2 15s. each. When such a company needs more capital, it is a usual practice to offer new shares at a premium. In the circumstances named new £1 shares could be placed at £2 12s. 6d., and the company would receive £1 12s. 6d. over and above the nominal value for each share taken up. Dividends paid on shares issued at a premium are, however, paid on the nominal value only.

3. **Deferred Shares** are shares that have their claim to dividend put back until a certain rate has been paid on the ordinary shares of

the company. Other names given to this class are "founders' shares" and "management shares," because they are usually taken by persons closely interested in the floating or the working of the company. They are not a very common feature of a company's capital arrangements; but, where they exist, they are usually of small nominal value, and carry a right to a large proportionate share of profits. In a capital consisting of 100,000 ordinary shares of £1 each and 100,000 deferred shares of 1s. each, the deferred shares might take half the profits distributed after 10 per cent had been paid on the ordinary. In that case a distribution of £14,000 would mean £12,000 or 12 per cent to the ordinary shareholders, and £2,000 or 40 per cent to the deferred.

4. Conversion of Shares to Stock. Stock is the form that a company's capital takes when the division into shares, and the use of distinctive numbers, are abandoned. Any portion of a company's capital in the form of stock is described simply by the nominal value of the portion. For example, I may buy £215 of London and North Eastern Railway 4 per cent Second Preference Stock. I would pay for that quantity whatever happened to be the market price of that stock on the day it was bought.

Statutory companies, as distinct from registered companies (see Chapter XVI), may and do *issue* their capital in the form of stock and not as shares. All the companies, however, engaged in purely wholesale or retail trade are of the registered class, and their authorized or issued capital must, in the first instance, always be divided into shares. Only after its issued shares have been fully paid up by the holders may a registered company convert the shares into stock. The advantage of turning shares into stock may be illustrated by supposing that the share, of £10 nominal value, of a prosperous company has risen to a market value of £47. Because shares can be transferred only as whole shares and not in fractions, transactions in that company's capital could take place only in multiples of £47 of selling price. As buyers could not always easily be found who would want just five, or twelve, or twenty times so large a unit, the size of the unit would hinder free dealing in the shares, and would affect their price unfavourably to the seller. Such shares, being fully paid, could be converted into stock, and the stock could then be dealt in, with greater freedom, in multiples of £1, or, perhaps, multiples of 10s.

DEBENTURES AND DEBENTURE STOCK. A *debenture* or *debenture bond* is a written transferable instrument given by a company under its seal in acknowledgment of a loan to the company. The instrument contains an undertaking periodically to pay interest on the loan at a specified rate. Unless the debenture is an irredeemable one, it also contains an undertaking to repay the loan itself, either at a stated time, or at a time the company may determine. As security for payment of interest and for repayment of principal, a debenture usually gives the holder a mortgage on the company's land and buildings, and a floating charge on the stocks of goods and other property it will hold from time to time.

Debentures are commonly issued in series of equal units, for example, one series of £100 each, a second of £500 each, and a third of £1,000. Each bond is numbered consecutively as shares are numbered. They are offered frequently in the same prospectus as shares; they may be offered at a discount, redeemable at par, or they may be offered at par, redeemable at a premium. If it is an issue of debenture bonds, each holder is given separate single bonds sufficient to make up the amount allotted to him. The loan may, however, be raised as *debenture stock*. Then there will not be any series, not any numbered units; and only one debenture certificate will be issued for the full amount taken by each debenture holder. The issue of one certificate (which, however, states the distinctive numbers of the shares) is also the practice followed on an allotment of shares.

Companies issue debentures instead of shares for one of the following reasons: (1) A prosperous company, by giving such security as a debenture provides, can raise money at a rate of interest lower than that of the dividend shareholders would want; (2) an unprosperous company is not in a sound enough position to raise additional funds without giving security; (3) shares would be a permanent addition to capital, whereas debentures can be repaid.

PECULIARITIES OF THE COMPANY BALANCE SHEET. 1. **The Statement of Share Capital.** It is customary, as is done in the specimen on page 205, to start the liabilities side of a company's balance sheet with the company's capital, and to start the assets side with the permanent assets. In the balance sheet of a single trader or a firm the reverse order is frequently adopted for both sides. A company states its capital twice over. First it shows the details of the capital

authorized ; then it shows what the subscribed capital is, and what has been paid up.

2. The Debenture Loan. The item of debentures is a liability peculiar to the company form of undertaking. Frequently the sum raised by debentures is looked upon as *loan capital*, as is the loan that a single trader or a partnership may raise by private arrangement. Nevertheless, the Companies Acts, by which registered companies are regulated, do not recognize debentures as part of the Capital. What these Acts call the capital of the company is its *share capital* only, either the full amount authorized, or so much of that amount as has been subscribed, or taken up by members. Again, debenture holders are not, under the Companies Acts, members of the company. They have no right of attendance at meetings of the company's members, and they have no vote on matters submitted to shareholders' consideration. They are creditors of the company, creditors that, almost invariably, are in the favourable position of holding security, which they can enforce when necessary, for satisfaction of their claims.

3. Debenture Redemption Fund. Our specimen balance sheet shows on the liabilities side a fund for redemption of debentures. That means the company is setting aside annually part of its profits with the object of paying off its debenture loan. So that this fund shall be readily available when wanted, it is invested safely outside the business. On the assets side of the balance sheet the item of investment shows the whole of the fund invested, with the exception of £990 interest accrued and added to the fund, but not yet received. That, also, will be invested when received. On repayment of the debentures the company will be in the position of having substituted undistributed profits of its own for the outside loan it had been necessary, earlier in its history, to raise ; and it will then be using these surplus profits interest free.

4. The Company's Reserve. Included amongst the liabilities, the Reserve Account is, again, an item almost peculiar to a company. This also consists of undistributed profits, or profits that have not been paid away as dividends. The existence of a reserve strengthens the financial position of the company. In an emergency the company can fall back on this surplus to make good some unexpected loss sustained, or to make up a dividend to the usual rate when, in a temporary depression, the profits earned are insufficient. The

numerous members of a big company do not like dividends to fall. They are not in direct touch with the company's affairs, and are not always able to appreciate the causes of their company's temporary inability to pay the dividends they want. Some banking companies, to whose business the maintenance of public confidence is essential, build up reserves equal in amount to their paid-up capital.

5. The Appropriation Account. Companies' dividends are paid, either at so much per cent of the paid-up capital or at so many pence (or perhaps shillings) on each share. Now, on the ordinary capital shown in our balance sheet, a $\frac{1}{2}$ per cent more in the dividend would take £1,100 of the available profits. A $\frac{1}{4}$ per cent would take £550; and, if the dividend were declared at so much a share, a penny more or a penny less on each ordinary share would mean as much as £916 13s. 4d. altogether. It is plain, then, that a company's profits can seldom be divided among the shareholders up to the last penny earned. For that reason the net profit shown by a company's Profit and Loss Account is transferred to an account, out of which dividends and other appropriations are taken, and in which the unappropriated balance, if any, is then left standing. That account is called "Profit and Loss Appropriation Account," and its balance appears, of course, in the company's balance sheet. In our balance sheet here, the balance of £35,747 5s. 5d. is a large one; but it must be taken to include the profits of the year, a large part of which is about to be declared as dividends. For a half-year's dividend on the preference shares of this company £3,900 would be required; and for, let us say, a final dividend for the year of 10 per cent on the ordinary shares there would be needed £22,000. These would leave only £9,847 5s. 5d. to provide the Debenture Redemption instalment and something, probably, to be added to Reserve.

All the items we have been explaining appear on the liabilities side of a company's balance sheet. The debentures appear on that side because they are a loan owing to outside creditors. The other items appear among the liabilities because they are all the property of the members of the company, and therefore a liability of the company to the members. The share capital is obviously the shareholders'; and the other items—Reserve, Redemption Fund, and Appropriation Account balance—are theirs, too, because they are made up of accumulated profits that have not been divided up

amongst the members. They would be so divisible on a winding up, if they were then still intact. These items are all of the nature of reserves, which the company uses as capital—for the provision of necessary assets—free of interest and of dividend. But their use in that way is for the benefit of the shareholders, who would claim them if they were divided. Being used in the making of more profits, they permit of the payment on the ordinary shares of a larger dividend than would be possible, if these sums could not be made use of free.

QUESTIONS

1. What is the meaning that is given in book-keeping to the term "capital"? Draft a simple balance sheet for a business owned by two partners. Show assets of several kinds and show how much of the business capital belongs to each partner.

2. Why do accountants place a trader's Capital Account on the liabilities side of his balance sheet? Name two items of a kind quite different from the Capital Account that would also appear on the liabilities side of the balance sheet. Contrast claims that would exist against the business in respect of these two items with the trader's claim in respect of capital.

3. (a) What is a liability, and what is an asset? Give two examples of each.

(b) What do we mean when we say that a business is solvent? Draft a simple statement of a business position that will clearly show the business to be insolvent.

4. Name some of the things that the capital of a trading business consists of, and make your list as varied as you can. How has capital been produced, and how is it still being produced? For what purpose is it used in trade?

5. Explain clearly the meanings of—

(a) Fixed capital.

(c) Working capital.

(b) Liquid capital.

(d) Circulating capital.

6. Explain, using a simple balance sheet for illustration, what is meant by the capital a trader has *in use*, and what is meant by the capital a trader *owns*.

7. Show why a business must have working capital, and in what ways the business uses such capital. Show what will be the result of a business not having sufficient working capital for its trade.

8. Explain how you would scrutinize a balance sheet with the view of ascertaining whether the business, without being insolvent, is able or not able in the ordinary course of trading to meet its liabilities as they fall due. How should a balance sheet be arranged so as to show the position as plainly as possible from that point of view?

9. Name and explain as many ways as you can in which a growing business can be supplied with the capital (in its widest sense) that the business needs for its expanding trade.

10. What do the terms: Paid-up, issued, nominal, subscribed, authorized, denote, when they are applied to the share capital of a company? What is the meaning of "share" when the word is used in regard to a company's capital?

11. (a) Name three different kinds of shares issued by companies, and explain how each kind differs from the others.

(b) What is *stock*, as distinct from *shares*, and what are the advantages, if any, of stock over shares?

12. What are debentures, and what is the relation of a holder of debentures to the company that has issued them?

13. Explain in what sense debentures can be considered as part of the capital of a business, and in what sense they are not to be considered as part of its capital.

14. Show how the profits of a company and of a partnership can be used for capital purposes. Explain what are the benefits to a company of its capital being used in that way.

15. Discuss the methods resorted to in modern business for obtaining capital required for expansion. Compare, in that respect, the position of the business of a sole trader or a partnership with that of a joint-stock company.

16. (a) Name all the various kinds of debentures you know of, and explain their differences.

(b) Why would a Company make an issue of debentures instead of an issue of shares?

CHAPTER XVI

FORMS OF BUSINESS PROPRIETORSHIP

BUSINESSES, wholesale and retail, are carried on under several forms of proprietorship, of which (1) the sole or single trader, (2) the firm or partnership, and (3) the company or joint-stock corporate body are the chief. In addition to these we have (4) the limited partnership, which is a form but little used, and (5) the co-operative society. The last named was dealt with in Chapter V. This chapter will treat of the other forms—more particularly of the partnership and the limited company, and of the manner in which they are constituted.

THE SOLE TRADER. Where the ownership of a business rests in a single person there is little to be said on the constitution of its proprietorship. The owner should, of course, have the capacity to contract—should not, for example, be a minor or a lunatic—or his trading contracts will not be enforceable against him. His business liabilities to creditors do not end with the exhaustion of such capital as the sole trader has put into his business. On the contrary, they extend to all other wealth of which he may be possessed in his own right, subject to the provision of the Bankruptcy Act, 1914, which requires that a bankrupt must be left with the tools of his trade, with bedding and wearing apparel for himself and his family, up to the value of £20 in all. These rules apply, however, to partners as well as to single traders.

The sole trader is interesting here because of his potentialities. Many of our largest businesses, now conducted under other forms of proprietorship, have grown out of this one. A highly capable or successful sole trader soon reaches the limit of his individual means, and has to press into his service the financial help and managing ability of others. The proprietorship of his business probably passes through the partnership into the company form.

If a business, whether conducted by a single proprietor or a partnership, is carried on in the United Kingdom under other than the true surnames or full names of the proprietors, certain particulars must be registered, under an Act of 1916, with the Registrar

of Business Names ; and the full names of the proprietors must be shown on the business stationery. Companies are subject to a process of registration of their own under the Companies Acts.

THE NATURE OF PARTNERSHIP. The legal position of partners to each other, and to outside persons dealing with them, is governed by the Partnership Act of 1890. According to Sect. 1 of that Act, " partnership is the relation which subsists between persons carrying on business in common with a view of profit." Still, the Partnership Act does not apply to associations for trade or other purposes formed under the Companies Acts ; and these Acts prohibit the association of more than twenty persons for the carrying on of any trading business, unless the association is registered as a company.

It is necessary, for the relation of partnership to be established, that the persons associating shall do so with the object of (1) carrying on some kind of business, and (2) making profit thereby. The fact that two or more persons were the joint-owners of a motor-car would not of itself constitute them partners. But they would be partners if they used the car for a business purpose in which they were both interested, and for their common gain. Persons may be joint-owners of house property or of stocks or shares without their relation being that of partners. Even the receipt of a share of the profit of a business will not make the recipient a partner in the business, if he has no right to take a share in its management also.

PARTNERS' RELATION TO EACH OTHER. 1. **The Partnership Agreement.** Like other contracts mentioned in Chapter XII the relation of partnership may be entered into by deed, by written agreement under hand, by oral arrangement only, or even by mere implication in the conduct of the parties. For the prevention of dispute afterwards, persons entering into partnership will do well to have exact terms agreed upon at the beginning, and to have them drawn up by a solicitor in a formal Partnership Deed or Agreement. Some of the points to be settled are—

1. Whether a term shall be fixed for the duration of the partnership, and if not, how the partnership may be dissolved.

2. What sum each partner shall contribute to the capital of the firm.

3. In what ratio and at what times the profits or the losses of the partnership business shall be divided, and drawn out.

4. Whether, and if so on what matters, any partner shall be restrained from acting in the firm's business without the consent of the other partner or partners.

5. How questions in dispute between partners shall be settled.

6. How, on the decease or retirement of a partner, his share in the business shall be dealt with, and paid out.

7. What restraint shall be placed upon a retiring partner from setting up in competition with the remaining partners.

2. Rules of the Partnership Act. Sect. 24 of the Partnership Act lays down certain rules to determine the interests, rights, and duties of partners in their relation to each other ; but the application of these rules is subject to any agreement of a different effect that has been expressly made by the partners, or can be implied from their conduct. The rules we refer to are these—

1. All partners are entitled to contribute equal shares to the capital of the business, to receive equal shares of its profits, and to bear equal shares of its losses.

2. No partner has a right to a salary, or to interest on his capital, before profits are divided.

3. A partner, who has made to the partnership any advance beyond his agreed share of capital, is entitled to interest on the advance at the rate of 5 per cent per annum.

4. The firm shall indemnify every partner in respect of payments made by him or liabilities incurred by him in the ordinary conduct of the business, or for the preservation of the firm's business or property.

5. Every partner has the right to take part in the management of the firm's business.

6. No new partner shall be brought into the firm without the consent of all the persons who are already partners.

7. When differences arise between the partners on any ordinary business matter, the will of the majority shall prevail ; but, without the consent of all partners, no change shall be made in the nature of the business carried on.

8. The firm's books shall be kept at the place, or the principal place, of business, and every partner shall have free access to them, to inspect or copy them.

Other rules laid down by the Act are as follows—

9. The mutual rights and duties of partners may be varied by the express or implied consent of all (Sect. 19).

10. No partner in a firm can be expelled by a majority of the members unless such power has been expressly agreed to by all (Sect. 25).

11. Unless a term has been fixed for the duration of the partnership, any partner may terminate the partnership at any time by giving all the other partners notice of his intention to do so (Sect. 26).

12. If a partnership for a fixed term is continued, after the expiration of the term, without any new express agreement, the rights and duties of the partners remain the same as before (Sect. 27).

13. Every partner must account to the firm for any benefit he derives, without the consent of the other partners, from any use by him of the partnership name or property (Sect. 29), or from any business competing with the firm (Sect. 30).

DISSOLUTION OF A PARTNERSHIP. Unless agreed otherwise a partnership is dissolved (1) on the termination of the adventure or of the fixed term for which the partnership was entered into

(Sect. 32) ; (2) on any partner giving the others notice to dissolve if no term of duration had been fixed (Sect. 32) ; (3) on the death or the bankruptcy of a partner (Sect. 33). Also, the Court may decree dissolution, when a partner applies for it, on certain grounds specified in Sect. 35. The importance of Point 6 at the top of page 215 arises out of the provision of Sect. 39, which gives a retiring partner, or the representatives of a deceased partner, the right to have the assets sold, the creditors paid off, and any surplus divided out—unless the partnership agreement, as permitted by Sect. 32 and 33, provides for the surviving partners to continue the business. Sect. 44 causes the following rules to apply to the settlement of accounts between partners when dissolution takes place—

1. Losses shall be met first out of the profits of the firm, next out of its capital, and lastly, if necessary, by the partners individually in the proportion in which they would share profits.

2. Assets, including partners' contributions to make up deficiencies of capital, shall be applied in the following order—

- (a) In paying sums due to outside creditors.
- (b) In paying each partner rateably what is due to him for advances.
- (c) In paying each partner rateably what is due to him for capital.
- (d) In dividing anything that remains among the partners in the proportion in which they share profits.

THE GOODWILL OF A BUSINESS. “ Goodwill ” is the name given to the connection and reputation of a business, when these are viewed as having a value that can be realized on the sale of the business, or that can be taken into account on the admission of a new partner, or on the retirement of an old one. When a realization of assets takes place on dissolution, the goodwill, if any then exists, will be sold along with the other assets of the business. Any portion of the proceeds left after settling outside creditors' claims will be divisible among the partners. The purchaser of the goodwill takes the right to use the business name and its trade marks. Provided any agreement for the purpose is reasonable, the seller can be restrained from setting up in competition with the purchaser. Otherwise, he may start a rival business ; but he can be stopped in directly soliciting his old customers to come to him at his new place.

When a new partner is admitted to a firm, the question of the valuation of goodwill arises again, because his admission gives him a share in the value of the goodwill as well as in the other assets of the business. If a Goodwill Account does not then exist in the

firm's books, it is usual to open one, debiting it with an agreed value for goodwill, and crediting the value to the Capital Accounts of the *old* partners (who created it) in the proportion in which they shared profits. When a partner retires he is usually entitled to have his share of the value of goodwill credited to him, if that has not already been done. The representatives of a deceased partner have a similar right.

PARTNERS' RELATION TO OUTSIDERS. 1. The Liability of Partners.

" Every partner is an agent of the firm and his other partners for the purpose of the business of the partnership ; and the acts of every partner who does any act for carrying on in the usual way business of the kind carried on by the firm of which he is a member bind the firm and his partners, unless the partner so acting has in fact no authority to act for the firm in the particular matter, and the person with whom he is dealing either knows that he has no authority, or does not know or believe him to be a partner." So says Sect. 5 of the Partnership Act ; and that is the key to the relation of partners to the outside public, and of the public to the partners, in connection with the firm's business. It means that a partner binds his fellow partners in certain usual circumstances ; but in these only. They are (1) when he is conducting *in the usual way business of the kind carried on by the firm*, and (2) when the outside person dealt with is unaware of any restriction on the partner's authority so to act.

The effect of the main condition of this section may be illustrated by supposing a manufacturer to supply, on the order of a partner in a retail firm of fancy drapers, 1,000 galvanized-iron refuse burners to be charged to the firm. For want of the consent to the transaction of all the other partners, he would not be able to make the firm pay. The transaction would not be one " of the kind carried on by the firm." For the same reason the holder of a bill of exchange, ostensibly accepted by a firm of solicitors or of stockbrokers, would not have an indisputable claim on the *firm*, but only on the partner individually who had given the acceptance. Accepting bills of exchange is not part of the ordinary business of solicitor or stockbroker. It is, however, a part of the usual business of merchant, manufacturer, or trader. A guarantee is not a usual part of a business of any of these kinds ; and a partner who gave a guarantee in the name of his firm could not bind his partners by it.

2. The Extent of a Partner's Liability. Every partner is liable for *all* the debts incurred by his firm while he is a partner. But, in England, he is usually liable *jointly* with the other partners (Sect. 9), which means, in effect, that if judgment has once been obtained, without satisfaction, against partner A, or against partners A and B jointly, a second action cannot be brought against partner C. In Scotland the rule is the reverse, for there the partners are *severally* liable for the firm's debts. But in Scottish law a firm is a legal entity separate from its individual members, whilst in English law it is the individual partners themselves. Both in England and Scotland a partner, who has been made to pay more than his share, has under Sect. 24 a right to contribution from the other partners.

When the members of a partnership change, creditors of the old firm are not obliged to look to the new firm for payment, but they may do so if the new firm agrees to pay. An incoming partner cannot, however, be made liable against his wish for debts incurred before he came in ; nor does an outgoing partner, except by agreement among all parties, cease to be liable for debts incurred before he retired (Sect. 17).

For the signing of bills and cheques the usual signature of a firm is simply the firm-name written by one of the partners. A partner may, however, as between himself and his fellow partners, be prohibited from doing certain things in connection with the business of the firm. But, by the law of agency, and by one of the conditions of Sect. 5 already referred to, that makes no difference to an outsider dealing with the firm through that partner, provided the outsider has no notice or knowledge of the prohibition. If he has notice the rule is different (Sect. 8). To be binding on the firm, a deed—for a lease or a purchase of property, for example—must be executed by all the partners of the firm.

THE DOCTRINE OF HOLDING OUT. Anyone who represents himself to be a partner in a firm, or who allows himself to be represented as such, is liable to any person who gives credit to the firm on the faith of that representation (Sect. 14). Such representation, either by words or conduct, is known as the "holding out" of the person to be a partner. It is for this reason that a retiring partner should give public notice of his retirement, and notice individually to all persons with whom the firm has been accustomed to deal. Without notice of retirement, persons selling on credit to the continuing partners

would be entitled to assume they were still trusting the old firm (Sect. 36). That would make the retired partner responsible for debts so incurred. Notice of the fact is not necessary when a partner dies, or becomes a bankrupt. A "sleeping partner" is one who has agreed not to act so as to bind his fellow partners to outside parties.

THE LIMITED PARTNERSHIPS ACT OF 1907. A business may be carried on under this Act by a "limited partnership," in which one or more of the members are general partners, and one or more limited partners. A *general partner* enjoys rights, and is subject to liabilities, similar to those in an ordinary partnership. General partners are, therefore, liable to the full extent of the debts that a limited partnership incurs. On the other hand, the rights of a *limited partner* are restricted, and his liability is limited. On becoming a limited partner he makes a fixed contribution in cash or in kind, and he cannot afterwards be called upon for anything more; but, so long as he continues in the position of a limited partner, he is not permitted to draw any part of his contribution out. Particulars of every limited partnership must be registered with the Registrar of Joint-Stock Companies, also particulars of any changes in its constitution. The register is open to the public for inspection.

A limited partner cannot take any part in the management of the firm's business. He may inspect its books and advise upon its affairs; but he cannot bind the firm. His death, or bankruptcy, or lunacy, is not a cause of dissolution, as it would be in ordinary partnership. Subject to agreement to the contrary, a limited partner may not object to the introduction of a new partner; nor can he dissolve the firm by giving notice. He may, however, assign his share, the assignee becoming limited partner in his place. With these and a few further exceptions, the law of ordinary partnership applies. Undertakings of this kind are not numerous, greater attractions being offered by the facilities that now exist for forming private companies with limited liability under the Companies Acts.

FORMATION OF A COMPANY. Companies carrying on wholesale or retail trading undertakings belong to the class of "registered" companies, so described to distinguish it from two other classes known as "statutory" and as "chartered" companies. Registered companies are regulated by the Companies Acts, 1908-1928. A company of this kind comes into being by the registration, with the

Registrar of Joint-Stock Companies in London, Edinburgh, Belfast, or Dublin, of a Memorandum of Association and some other documents, which include Articles of Association, if the company is to have Articles of its own. Registration fees are charged and a duty of £1 per cent on the amount of the authorized capital. The Registrar submits the documents to scrutiny after which, if they are found in order, he issues a certificate of incorporation that brings the company into existence. The documents registered are then placed on the Registrar's file for that company. Together with other documents required to be filed from time to time they are accessible to the public on payment of one shilling for each inspection made.¹

THE MEMORANDUM AND THE POWERS IT GIVES. A company's Memorandum of Association is a short document of which Clause 3, the longest, sets out in considerable detail the objects for which the company is being formed. Clauses 1 and 2 state the name of the company and whether its registered office is to be situated in England, in Scotland, or in Northern Ireland. If members' liability is to be limited, Clause 4 says so; and, if the company is to have a share capital, Clause 5 names the amount to be authorized and the number of shares into which it is to be divided. Except where the company is to be a "private company" (see page 225), the Memorandum must be signed by seven persons, who state their desire to be formed into a company. The signatures must be witnessed, and each signatory must write opposite his name the number of shares he agrees to take.

A company may not alter its Memorandum except for the purposes that the Companies Act permits, and by the procedure they prescribe. Chief of the permissible alterations are (1) a change in the company's name, (2) within restricted limits a change in its objects, and (3) an alteration of the capital authorized. Its Memorandum of Association is the basis of the company's constitution. As explained in Chapter XII, under the head of Incapacity, anything

¹ A statutory company is one created by a special statute passed by Parliament for the purpose. The class includes railway companies and water companies, and others whose objects necessitate the compulsory acquisition of land. A chartered company comes into being by a charter granted by the King in Privy Council. The Royal Mail Steam Packet Co., is an example. That company was incorporated by charter in 1839, but any similar company, to be formed now, would be registered under the Companies Acts.

done outside the powers given by the Memorandum is void in law, whether it is done by a meeting of the company's members, by the board of directors, or by servants transacting the company's business.

THE ARTICLES OF ASSOCIATION. The Articles of Association of a company are a set of regulations for governing the relationship between the company and its members, and between the company and the directors. Any act that contravenes the Articles, or goes beyond them, as they stand at the time is void. Unlike the Memorandum, however, the Articles may be altered in any respect, by a resolution of members in general meeting, passed in the manner and with the majority that the Act of 1908 requires. Articles cannot, however, override the Memorandum, or widen or restrict its scope. Every member is entitled, on payment of not more than one shilling, to a copy of his company's Memorandum and Articles. When a company has not registered Articles of its own, it uses the model set scheduled to the Act and known as "Table A." The following short specimen clauses from Table A will serve to show what kind of regulations a set of Articles contains—

7. If a share certificate is defaced, lost, or destroyed, it may be renewed on payment of such fee, if any, not exceeding one shilling, and on such terms, if any, as to evidence and indemnity as the directors think fit.

18. The instrument of transfer of any share in the company shall be executed both by the transferor and transferee, and the transferor shall be deemed to remain a holder of the share until the name of the transferee is entered in the register of members in respect thereof.

53. The chairman, if any, of the board of directors shall preside as chairman at every general meeting of the company.

60. On a show of hands every member present in person shall have one vote. On a poll every member shall have one vote for each share of which he is a holder.

95. The company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the directors.

108. A copy of the balance sheet and report shall, seven days previously to the meeting, be sent to the persons entitled to receive notices of general meetings in the manner in which notices are to be given hereunder.

A COMPANY'S LEGAL STATUS. A company is a "body corporate." That means it is in law an entity distinct from the individuals of which it is composed. On its incorporation it takes a name of its own, and it continues to exist as the same company, and to trade in the same name, though its members change. The more important documents executed in the company's name are impressed with its own seal as the sign of its authority. Its rights and its liabilities

are its own, and are not rights and liabilities that its members can exercise or undertake individually. The company only, and not any of its members separately, can enforce its rights. Its creditors can sue the company only, and can look only to the assets of the company for satisfaction of their claims. Creditors of a partnership can sue the separate partners ; but a company's creditors cannot take action against any of its members, nor can they proceed direct against property that members hold apart from that in the possession of the company.

MEMBERS AND THEIR LIABILITY. The persons who sign a company's Memorandum automatically become members of the company on its incorporation. Persons who have applied for shares and had allotments made to them, also persons to whom shares have been transferred by previous holders, become members of the company when their names are entered on the Register of Members.

On a company taking over a going concern the vendors of the business are usually paid in whole or in part by shares allotted to them as fully paid up. But when, in other circumstances, shares are issued subject to payment in cash, the payment is commonly cal'ed up by the company in instalments. Every member holding shares that are not paid up in full is liable to the company for the calls that it may make upon them whilst he is a member. If the company is being wound up, and if payment of calls made cannot be obtained from his successor, the previous holder is liable for twelve months after he ceased to be a member. He cannot, however, be made to contribute, if the money is required by the company for paying debts it has incurred since his membership ceased.

The legal view of a company's corporate nature makes the company and any of its members distinct and separate parties. From that it follows that a member's liability for payment of his shares is in every case a *liability to the company*, and not to the company's creditors direct. A very few companies exist in which the liability of the members is *unlimited*. In a winding-up the members of such a company can be called upon to contribute to the company's funds amounts in excess of the nominal value of their shares, if the company has any shares. All other companies registered under the Companies Acts are *limited* companies. Most of them are companies " limited by shares," and in these the members' liability to contribute to the company's funds ends entirely as soon as the

shares they hold become fully paid. In some, which are "limited by guarantee," each member's liability is to pay, if necessary, in a winding-up, the sum (usually a small one) stated in the company's Memorandum, and to pay no more.

A few limited companies, being companies not run for gain, hold licences from the Board of Trade to dispense with the word "limited" in their names. Except in that small class, the name of every limited company must end with the word "limited"; and the name, including the "limited," must be displayed on the company's premises and stationery. The use of the word is made compulsory with the view of giving notice to all who may deal with the company, that its resources are restricted, because of the limitation of its members' liability to keep the company in funds.

THE BOARD OF DIRECTORS. The joint-stock form of proprietorship was developed as undertakings—chiefly at first those of public utility, such as docks or railways—became too big and too numerous for persons to be able or willing, as partners, to find the huge capital sums required. The custom grew, therefore, of making appeal to the public at large to come in and subscribe to the company's capital funds. How impracticable it would be, for a large body of proprietors to manage such an undertaking, becomes plain when we consider in what manner it would be possible for the myriad stockholders of the London Midland and Scottish Railway, or the thousands of shareholders in a trading concern like John Barker & Co., Limited, to run their business successfully, if all tried to take a hand in its direction. Besides, many or most of them, having affairs of their own to look after, could not find time to share the management, even if they would. In such undertakings the attainment of efficiency of direction, and of continuity of supervision, necessitates the vesting of control in a smaller body than the proprietors themselves. That body, which is general in joint-stock enterprise, is called the "Board of Directors" of the company.

The Companies Acts and particular Articles require certain matters to be submitted to the shareholders in general meeting for their sanction, before the Board can carry them into effect. Subject to such reservations Articles give to the directors general powers to conduct the company's business, and to borrow money for the company up to a limit set. A specified share qualification is, as a rule, required by the Articles for the holding of a directorship.

Articles also commonly require that directors shall retire by rotation ; for example, a third of their number each year. They can then be re-elected by the shareholders at the company's annual meeting, or other directors may be elected in their places. The Board, however, has power to fill vacancies occurring in the interval.

The directors appoint managers of the company's business, or they appoint one or more of themselves to be managing directors. Managing directors and managers are, of course, responsible to the Board. The directors also appoint a secretary who, as servant of the directors, writes up minutes of the decisions and actions taken at meetings of the Board and of the shareholders. The keeping of these minutes is compulsory, so that a record of directors' and shareholders' proceedings shall be available when doubt about them arises. The keeping of the Register of Members is likewise compulsory ; also a Register of Directors and a Register of Mortgages or Charges when such exist. Certain returns must be made periodically to the Registrar of Companies, these returns and the compulsory books being open for inspection by members and the public. All such duties devolve upon the secretary of the company. Under the Board's instructions he, too, sees to the sending out of notices and of dividends, to the checking of transfers of shares and the preparation of new share certificates.

THE VOICE OF THE MEMBERS. What is described as the ordinary general meeting of the company or, more usually, the annual meeting of shareholders; must be called by the Board each year. To that meeting are submitted for the members' consideration and discussion the Directors' Report and the Annual Accounts with the Auditors' Report attached. Copies of these have as a rule, been sent to the members along with the notice convening the meeting. At the meeting the chairman makes a speech explaining the accounts and usually giving information about the company's trade and position in addition to what the Report and Accounts contain. The meeting adopts the accounts or not, according to whether it is satisfied or not with the result.

The Directors' Report, if the company has sufficient profit available, recommends dividends at stated rates to be paid on the different classes of shares. If these are satisfactory their declaration is effected by a resolution of the meeting that they shall be paid. Retiring directors, or new directors to take their places, whose

names have already been submitted in the Directors' Report, are then proposed and usually elected. A similar procedure follows with regard to auditors and the fixing of their remuneration. That constitutes all the business of an ordinary general meeting. Other business may, however, be transacted at an ordinary meeting, if adequate notice of its nature was given to the members when the meeting was called. At any time the directors may call an extraordinary meeting of the members, when some matter crops up which the Board, by the Acts or the Articles, is required to submit to the shareholders, or when some step is about to be taken which the Board considers of such importance that shareholders should be asked to approve. The first general meeting of a company is its "statutory meeting," required to be held within three months of the date of which the company becomes entitled to commence its business. The purpose of that meeting is the consideration of matters connected with the formation of the company.

Members themselves, holding not less than one-tenth of the paid-up capital of the company, have the right formally to requisition the Board to call an extraordinary meeting for such purpose as the requisition may specify. These several meetings are the means, provided by the Companies Acts, for members expressing their views and giving effect to their wishes. The company and each of its members being separate contracting parties, either the company or a member may invoke the aid of the Court, when it is thought that the terms of the contract are not being kept, or the requirements of the law are not being observed, by the other party.

PRIVATE COMPANIES AND THEIR PRIVILEGES. Since the 1st of July, 1908, the benefits of limited liability have been available to as few as two persons, associated for trading or other purposes, and registered under the Companies Acts as a "private company." Before that date the minimum number of members for any registered company was seven. A private company must, however, register special Articles by which it—

1. Limits the number of its members to a maximum of fifty, exclusive of present and past employees ;
2. Prohibits invitation to the public to subscribe for shares or debentures of the company ;
3. Restricts the right of members to transfer their shares.

It should be noted that the third condition imposes some form of restriction only ; absolute prohibition of transfer is impossible.

A private company is exempt from various obligations placed on other limited companies, chiefly for the purpose of disclosing to members and others interested information about the company's affairs. For example, the private company need not file annually with the Registrar of Companies a copy of its balance sheet. Also, it may begin to trade immediately on its incorporation, whilst any other company must first comply with a number of regulations before it can obtain from the Registrar a certificate entitling it to commence business. A private company will, however, lose its privileges if it ceases to observe the conditions imposed upon it. Private companies are now very numerous, their yearly registrations greatly exceeding those of the public kind

COMPANY AND PARTNERSHIP COMPARED. In business parlance the term "firm" is used somewhat vaguely, sometimes for a partnership, sometimes for a company. "Company" being the term made use of in the Companies Acts, and "firm" being expressly recognized by the Partnership Act as a designation of the partners as a body, it would be as well, for the sake of clearness, to reserve the former name for the joint-stock form, and the latter for the partnership form, of business proprietorship. Below we give a summary of the main differences between the two forms—

1. *Formation.* A company comes into existence by a special process of registration under the Companies Acts, by special statute, or by Royal Charter. A partnership is formed simply by agreement between the partners.

2. *Number of Members.* A company, unless it is a private company, must have at least seven members, but it may have as many more as the extent and subdivision of its capital will allow. A trading partnership cannot consist of more than twenty persons.

3. *Legal Status.* A company is considered in law to have an existence separate from the persons of whom it is composed. In a partnership, one partner may bind the firm, and any partner may be called upon to pay debts of the firm. But the rights and obligations of a company cannot be exercised by or enforced against its individual members.

4. *Limited Liability.* When a company is limited by shares or by guarantee, no member can be made to contribute to the company's assets anything beyond the sum, if any, still unpaid on the shares he has taken or on the guarantee he has given. A partner's liability is unlimited.

5. *Transferability of Holdings.* The holdings of the members of a company are transferable. A member may sell out, and the buyer of his shares come in as a new member, subject to such conditions as Articles may impose; but holdings can never be withdrawn and repayment demanded. In a partnership, on the contrary, no new partner can be admitted except with the consent of all existing partners. Moreover, a partner may withdraw, and insist on the firm's assets being realized in order to repay his share of capital.

6. *Continuity of Existence.* If a member of a company sells his holding, neither his withdrawal, nor the entry of his successor, makes any difference

to the existence of the company. In a partnership, death or retirement of a partner is a cause for dissolution.

7. *Management.* Every partner has the right, unless he agrees otherwise, to take an active part in managing his firm's affairs ; but the rights of members of a company to have a say in the company's management are very restricted. They can be exercised in certain ways only, as by formal resolution in general meeting, or by application to the Court in special circumstances.

8. *Alteration of Constitution.* The constitution of a firm may be changed by agreement amongst the partners, but any alteration of a company's Memorandum which would change its objects, or reduce its capital, or modify the rights attaching to any class of its shares, cannot be made without permission of the Court.

9. *Publicity.* A company, by keeping books open for inspection and by filing returns with the Registrar, is required to make public certain information that, in a firm, the partners would keep to themselves.

ORGANIZATION OF CAPITAL SUPPLY. At first it was in works of general utility that members of the public most readily displayed an interest, and could most easily be induced to take a stake. But, as confidence in joint-stock methods grew, they came to be applied to the financing of business of the ordinary trading type. Not long ago scarcely any business of this kind was so large that many persons were needed to supply the capital it required. Now, however, it is the rule for important manufacturing and trading concerns to be widely owned ; and every week the newspapers print prospectuses asking the public for funds. That part of the community with money to invest is joint proprietor to a great extent in the industry of the land.

Joint-stock enterprise grew up with the railway and the post, which opened new arteries for trade to flow in. It came with the application of steam power to machinery for the cheap production in large quantities, not only of things produced by hand before, but of many new things to meet new wants. It grew up with these because, to develop transport and to acquire machinery, large capital was needed ; because in mass production much money must be sunk before goods can be finished and marketed and a return of capital obtained.

Without some method of collecting capital in small portions, and of throwing these together into a large common fund, our bigger undertakings would never have been possible. Many of life's conveniences that we now enjoy, and take as matters of course, could not have been provided for us. If life to-day is fuller than of yore, it is because of the variety of small, perhaps sentimental, wants that the average person is now able to satisfy. And the more

capital society puts into industry, the more wealth will it be able to produce, and the more wants of its members will it have the means to meet.

To people with spare money, limited liability is a great inducement to supply enterprise with the funds it needs, without the suppliers having to take upon themselves the risks that partnership would involve. The cutting up of capital into small fixed units or shares, transferable at a holder's will, and the establishment in the Stock Exchanges of a wide market for dealing in these shares, permits of capital being easily handled—of portions passing freely from one's possession to another's, as the exigencies of personal circumstances require one person to sell, and induce another person to buy. The joint-stock principle assists, also, in organizing the supply of managing ability. To a great extent it separates management and proprietorship. That separation causes a loss of desirable personal touch between proprietor and staff; yet it permits in some degree of the functions of owner and manager each being exercised by those most capable of doing so. Couple with such conditions the facilities that banks and investment companies now provide for the collecting and making available of small portions of liquid funds, which would otherwise lie idle in individual hands, and we get some idea of the development in the organization of capital supply that has taken place since a century ago.

The joint-stock system offers the man with capital a wide range of choice in placing his investments. Instead of venturing his money all in one enterprise, he can put part here, part there, and parts in other places. So does he make sure of a considerable degree of safety. His eggs are not all carried in one basket; his treasures not all borne by one ship. Life's variable chances may bring him misfortune in one direction; but on the whole he is likely to pull safely through—so long, at any rate, as the lure of dividend does not dazzle his vision, or decoy him from the dictates of his judgment, in the making of his selections.

Moreover, the joint-stock system permits of any single venture being shared by many persons. Where the proprietors of an undertaking are few, its failure may mean disaster, as each partner may lose all that he possesses. On the other hand, in the company publicly financed, the proprietors are not few, and failure need mean merely that each suffers loss in only one of numerous ventures.

The loss falls on so many shoulders that each sufferer bears but a minor part ; and what to the few would be a shattering shock is felt by the many as only a slight set-back.

Of the points to be made against joint-stock companies, perhaps the two that carry most weight are (1) the opportunities their methods offer to unscrupulous persons for swindling, more or less barefacedly, too trustful members of the public, and (2) the facilities their constitution provides for the formation of combines that can eliminate competition, and keep up prices in the interest of shareholders and directors, and against that of the consuming public.

QUESTIONS

1. What limitations is a sole trader likely to experience as his business continues to expand ?

2. What regulations is a sole trader or are partners required to comply with when they carry on business in other than their true names ?

3. Explain as clearly as you can what is necessary to establish between two persons the relation of partnership as governed by the Partnership Act of 1890.

4. Name half-a-dozen points that, in your opinion, should be agreed between partners, and be set out in their Articles of Partnership.

5. What are the rights of partners in regard to, (a) the management of their business and their remuneration therefor, (b) their contributions to the firm's capital and interest thereon ?

6. A and B are partners whose capital accounts stand at £6,300 and £2,100 respectively. In addition, A has advanced to the firm £2,000. What share of the firm's net profits is each entitled to receive, and what are their respective rights to interest on their contributions ?

7. Can a new partner be brought in or not by a majority vote of the present members of the firm ? Can a partner be expelled in the same way ? In the event of irreconcilable differences arising between partners, what courses are open to them of ending their difficulties ?

8. In what different ways and from what different causes may a partnership be dissolved ?

9. When a partnership is dissolved what rights has a partner in respect of, (a) the property of the partnership, (b) the goodwill of the business ? What should a retiring partner do in order to evade liability for debts incurred by the continuing partners after he has retired ?

10. To what extent is a partner or the firm liable on contracts made in the firm's name by another partner ?

11. What are the liabilities of individual partners to outside persons with whom their firm has dealings ? What is meant by liability being joint, and not several ?

12. What is the " goodwill " of a business ? What effect has the sale of goodwill in regard to, (a) the right to use the firm name, (b) the right of a previous proprietor to set up a new business similar to the old one ?

13. Distinguish between a limited partner and a general partner. Compare a limited partnership with an ordinary partnership on the one hand, and with a limited company on the other.

14. What do you understand by the term "registered company"? How can such a company be formed?

15. What is a Memorandum of Association, and what are Articles of Association? Compare the two in regard to their contents, and in regard to the permissibility of the contents being altered.

16. What is meant by "corporate body"? Compare the legal status of a company and its members with that of a firm and its partners.

17. Explain precisely what is meant by "limited liability." In what different ways may limitation of liability be effected in a registered company? What steps has the legislature taken to warn outside persons that the liability of the proprietors of a business is limited?

18. (a) Give an outline of the organization usually set up immediately between proprietors and staff in a company-owned business.

(b) Enumerate the several means by which the shareholders of a company retain general control over the company's affairs.

19. Describe the extent of the powers vested in the directors of a company. How are limits set to the powers they may exercise?

20. Describe the conduct of the business of an ordinary meeting of a company. How can special matters be put to the decision of a company's shareholders as a body?

21. Explain the particular features and privileges of a private limited company as compared with other limited companies. State the advantages of a private limited company over a partnership.

22. X, Y, and Z are in partnership in a flourishing business. They contemplate taking A into the proprietorship, and they ask your advice about the desirability of converting the business into a private company. Write your reply, and give reasons for the decision you advise.

23. What provisions do the Companies Acts make for information regarding any company's affairs being supplied to the public by inspection of documents and books?

24. Discuss how the joint-stock form of proprietorship helps in the organization of business capital for the development of industry, and for the benefit of the community.

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